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EVALUATION OF THE ASOCIACION

DE ARTESANIA Y MODA (ADAM)

(Task No. 17)

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EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

EVALUATION OF THE ASOCIACION DE ARTESANIA Y MODA (ADAM)

BACKGROUND

The Asociación de Artesanía y Moda (ADAM) was established in April, 1985 as a non-profit knitwear foundation. With USAID assistance, ADAM provides marketing, production, training, and commercial services to artisan knitters and knitwear organizations in order to promote the project goal of increasing the incomes of artisan knitters and the level of non-traditional Bolivian exports, thus providing employment opportunities for poor rural women (the projects main beneficiaries).

This evaluation was conducted at the request of USAID/Bolivia over a three week period in May, 1988. It was not intended to serve as a comprehensive financial or management audit of ADAM. Instead, it was conducted in close cooperation with members of the ADAM Board of Directors and staff as a means to jointly assess performance to date in achieving the original project objectives, to highlight those areas requiring adjustment, and to discuss the appropriateness and need for continued USAID support beyond the project completion date of September 10, 1989.

In the early stages of the evaluation, it became evident that the original project design and strategy outlined in the project paper, remain valid today. Specifically, that in order to promote the project goals and objectives, ADAM should: 1) be "market oriented"; 2) be "run on a business-like basis"; and 3) "pursue simplification" as much as possible. Thus, the findings and recommendations incorporated in this evaluation have been presented within the framework of the original project design.

SUMMARY OF FINDINGS

Since the inception of the project in 1985, ADAM has evolved into a dynamic and well-respected private sector organization. It has solidly established itself within the Bolivian knitwear industry, and has initiated a wide range of marketing, production, training, and commercial services. ADAM's performance to date is especially impressive considering that it has been accomplished without the technical assistance originally envisioned. Nevertheless, ADAM has fallen short of both the original and revised project targets in the areas of income generation, export promotion, and employment creation.

Income Generation ADAM has substantially increased the per unit earnings of the artisan knitters involved in the project. However, given the absence of a reliable and systematic data gathering process, and the reluctance of several of the associated producer organizations to allow ADAM access to their internal financial records, it is not possible to verify that the higher wages paid by ADAM are being passed on to the knitters.

Export Promotion ADAM is behind all project targets, and more importantly, has failed to meet even its own export commitments. Furthermore, ADAM's poor track record in timely delivery with 100% quality acceptance has seriously strained some of its relationships with its present buyers.

Employment Creation ADAM has trained 1,774 knitters since beginning its training program in 1987. However, due to an apparent overestimation of the total membership of the associated producer organizations, the absence of a systematic tracking process of knitters, and the reluctance on the part of many of the associated producer organizations to share information regarding their membership with ADAM, it is difficult to measure the actual success of the project in creating employment opportunities for artisan knitters.

SUMMARY OF RECOMMENDATIONS

It is the conclusion of the evaluation team that, within the framework of the findings and recommendations of this report, the ADAM project deserves consideration by USAID/Bolivia for continued support and assistance. As should be expected from an experimental project like ADAM, much has been learned from the initial project experience, and there is a need to build on this experience in many areas if ADAM is to achieve the project goals and take full advantage of the potential export market for Bolivian knitwear products. The major conclusions and recommendations are as follows:

1) Although the goals of the project have been clearly articulated and quantifiable targets set, these have not been reflected in a well articulated systematic process to monitor and measure progress toward the achievement of project goals.

Recommendation: ADAM should design and implement a systematic and uniform process to monitor and report progress toward achievement of these basic project goals, including the establishment of reliable baseline data from which to measure progress.

2) Interviews conducted for this evaluation, together with related market research, confirmed the existence of a substantial international market for hand-knitted alpaca sweaters, and the proven capacity of Bolivian artisan-knitters to produce competitive products for this market.

Recommendation: For the short term (12-24 months), ADAM's marketing strategy should be to strengthen existing relationships with intermediary clients, focusing on production and quality control.

Recommendation: For ADAM's long-term development, the highest priority should be assigned to recruiting and engaging two key long-term experts to assist ADAM in the areas of marketing and production management.

3) ADAM is intended to operate as a profit-making business and to develop the capability to be a viable, self-sustaining private enterprise.

Recommendation: ADAM should prepare and routinely update a business plan, including a simple spreadsheet program that illustrates and projects costs, revenues, cash flows, profits and losses. The most important element of this business plan would be to specify the quantifiable targets and time frames for the ADAM project to become a profit-making, self-sustaining enterprise.

4) It was clearly specified in the original project design that ADAM operations were to focus exclusively on the effort to increase the exportation of artisan knitwear until the project established its viability.

Recommendation: For at least the next 12-24 months, the ADAM project should concentrate on improving its production system and expanding its base of satisfied buyers in the international market for a limited, high-quality line of hand knitted alpaca sweaters.

EVALUATION OF THE ASOCIACION DE ARTESANISA Y MODA (ADAM)

I. INTRODUCTION

A. HISTORICAL OVERVIEW OF THE PROJECT

The indigenous population of Bolivia has a long tradition in the production of hand-made camelid (llama and alpaca) knitwear. Originally produced for exclusive use by indigenous artisan knitters and their families, Bolivian knitwear products have been characterized by traditional designs and disparate quality. In recent years, however, indigenous artisan knitters have begun to sell their products in limited quantities to small domestic and tourist markets, thus generating a small, but significant source of additional income. This income is especially important in rural areas where indigenous artisan knitters are primarily poor women who earn little cash income and lack the necessary skills to secure alternate means of employment.

To promote the production of hand-made camelid knitwear, several small social service and private sector producer organizations have been established throughout Bolivia. These organizations provide raw materials, training, marketing services, and in some instances, health care and other social services. As a result of their efforts, hand-made Bolivian knitwear products are now sold throughout Bolivia and to more remunerative overseas markets in the United States, Europe, and Asia.

In recognition of these efforts and, more importantly, to increase employment, family incomes, and foreign exchange earnings, USAID/Bolivia initiated the Handicraft Export Promotion Project, in April, 1985. The stated goal of the project is to increase the incomes of artisan knitters and the level of non-traditional Bolivian exports, thus providing employment opportunities for poor rural women (the projects main beneficiaries). The \$3,000,000 project grant is administered through the Asociación de Artesanía y Moda (ADAM), a non-profit artisan knitwear foundation governed by a board of eight leading Bolivian business persons. ADAM is directly responsible for providing marketing, production, training, and commercialization services to artisan knitters and knitwear producer organizations in order to promote the production and export of artisan knitwear products.

B. PURPOSE AND SCOPE OF THE EVALUATION

At the request of USAID/Bolivia, the International Science and Technology Institute, Inc (ISTI) conducted a mid-term evaluation of the Handicraft Export Promotion Project to assess the:

- 1) degree to which the project has been successful in increasing the incomes of artisan knitters and the level of non-traditional Bolivian exports;
- 2) potential and actual performance of the project in creating employment opportunities for poor rural women, the project's main beneficiaries;
- 3) appropriateness and extent of the marketing, production, training and commercialization services provided through ADAM to artisan knitters and artisan knitwear organizations.

C. EVALUATION METHODOLOGY

In the early stages of the evaluation it became evident that the original project design outlined in the project paper reflects a sound knowledge of the financial, technical and institutional requirements for the success of the project. Furthermore, the project paper clearly identifies these requirements and offers an integrated strategy of how best to satisfy them in order to achieve the project goal of increasing the incomes of artisan knitters, and the level of non-traditional Bolivian exports. The four major components of this strategy remain valid today. Specifically, these state that: 1) ADAM should be market-oriented; 2) ADAM should be run on a business-like basis; 3) the operations of ADAM should remain simplified and; 4) ADAM should work with the various artisan producer associations in order to pass on higher earnings to the knitters.

Because of the ongoing validity of the original project design and strategy, the evaluation has relied heavily on the project paper to provide the necessary framework to assess the performance of the project to date. The following section on project goals and objectives uses the baseline data and original targets outlined in the project paper to measure the actual performance of ADAM and the associated producer organizations. The evaluation of the appropriateness and extent of the marketing, production, training, and commercial services provided by ADAM is also based upon the range of services outlined in the project paper.

Prior to traveling to Bolivia, the consultant team conducted extensive interviews with designers, retailers and wholesalers in the knitwear/fashion industry in both New York and Boston. In addition, extensive phone interviews of past consultants to ADAM, spinning, dying and knitwear fashion experts were conducted (see Annex 1 for a complete list of interviews).

The team spent approximately two weeks in Bolivia. While in La Paz, the team attended the monthly ADAM Board Meeting, met with officials from USAID, and visited the major artisan knitwear retail centers for FOTRAMA, Millma, Angora y Alpaca and La Lana. In Cochabamba, the team visited ADAM operations, and conducted on-site interviews with ADAM management and staff, representatives from the various producer organizations, artisans, and other persons closely associated with the project.

The evaluation was not intended to serve as a comprehensive financial or management audit of ADAM. Instead, it was conducted in close cooperation with members of the ADAM Board of Directors and staff as a means to jointly assess performance to date in achieving the original project objectives, to highlight those areas requiring adjustment, and to discuss the appropriateness and need for continued USAID support beyond the project completion date of September 10, 1989.

II. ORIGINAL PROJECT DESIGN

A. ORGANIZATIONAL STRUCTURE

In the original project design, there was significant debate over the manner in which ADAM should be structured to provide the marketing, production, training, and commercial services in order to achieve the project goal of increasing the incomes of artisan knitters and the level of non-traditional Bolivian exports. Although it was agreed that ADAM should be market-oriented and run on a business-like basis in order to achieve the project-specified targets (see Annexes 2-4), the most appropriate organizational structure for ADAM was unclear. The following four alternatives were discussed and considered: 1) placing ADAM within one of the already-established artisan knitwear producer organizations, such as FOTRAMA; 2) organizing an artisan knitwear association for the producer organizations targeted by the project; 3) creating a cooperative service organization, with representatives from each of the producer organizations on the board of directors and; 4) establishing a privately-owned handicraft trading company, financed by investors with an interest in exporting artisan knitwear.

The initial option of establishing ADAM within one of the already-established artisan knitwear producer organizations was discarded due to the conflicting underlying objectives of these organizations (see Annex 5). For example, three of the four founding knitwear producer organizations are social-development organizations with the primary objective of providing social-services. The production and sale of knitwear products are viewed only as a means to finance these services. On the other hand, the primary objective of the other private for-profit businesses is to maximize profits. None of these organizations is dedicated primarily to increasing knitter earnings.

The second option of forming an artisan knitwear association for the producer organizations targeted by the project was also rejected. Although several of these associations, such as the Asociación de Productores y Exportadores de Artesanía (ABEPA) and the Asociación Nacional de Productores y Exportadores Artesanías de Bolivia (ANEXABOL), have been formed throughout Bolivia, they have been largely ineffective and their programs dictated by the goals of individual members.

The third option of creating a cooperative service organization to implement the project was also ruled out in order to avoid the possibility of the group being splintered by the conflicting underlying objectives of the member groups. It was also unclear as to whether competing knitwear organizations would cooperate in order to establish policies, operating procedures, and provide quality services to the knitters targeted by the project.

In the end, the fourth option of establishing a for-profit privately-owned knitwear trading company was modified, and ADAM became a non-profit knitwear foundation mandated to provide marketing, production, training and commercial services in order to achieve the project goals. In this capacity, ADAM originally was to operate as a sales agent for the associated producer groups, and was not to take title to the goods produced by the associated producer organizations. At present, however, ADAM acts as a loosely-operated trading company, purchasing directly from the associated producer groups, in addition to providing marketing, production, training and commercialization services free of charge.

ADAM's Board of Directors is comprised of eight independent Bolivian businesspersons with an interest in developing the Bolivian knitwear industry and expanding the export of Bolivian knitwear products. Internally, ADAM is organized along functional lines, which report directly to the Executive Director (see Annex 6). This overall organizational structure is adequate (with the major exception of the marketing and production experts designated in the original project design), and basically well-staffed by highly-trained, dedicated and hard-working professionals. ADAM has also developed a comprehensive

manual of operations for general management, in addition to computer systems for production management and financial accounting. In short, virtually all the elements for a profit-making business are in place and the project is moving in the right direction.

B. PROJECT GOALS AND OBJECTIVES

In order to quantifiably measure the success of the project in achieving the original goals and objectives, the actual performance of ADAM and the associated producer groups has been compared to the original targets outlined in the project paper (see Annexes 2-4). Although the data provided by ADAM outline general trends and the comparative performance of the associated producer organizations, they are limited by several factors. First, the original targets outlined in the project paper for number of knitters, total production, and marketing appear to have been grossly overestimated. In addition, the original project design did not provide for an adequate start-up phase during which ADAM could prepare itself to respond to the needs and the demands of the market before having to concentrate on meeting project targets. Thus, it is not entirely fair to judge ADAM's success based upon its achievement of the original targets outlined in the project paper. Second, the absence of a systematic data gathering process within ADAM, or any of the associated producer organizations makes it virtually impossible to measure the actual number of knitters, total production and/or earnings. The available data reflect best estimates only, and not necessarily actual performance.

Perhaps the most accurate measure of the success of the project to date is the list of export orders for 1986-1988 (see Annex 7), which provides a complete overview of all ADAM production for export, including a measure of compliance with delivery dates and quality control. ADAM must export high-quality knitwear in a timely manner to meet its project goals and objectives, and ultimately to become self-sufficient. If ADAM cannot meet its export obligations the project has no possibility for success.

1. INCOME GENERATION

Both the knitters and associated producer organizations acknowledge that ADAM has been successful in substantially increasing the per unit earnings of artisan knitters involved in the project from the average \$1.50/per unit before the project¹ to a present average of \$8.43. The original project design was explicit in assigning ADAM the responsibility for ensuring that the "remuneration policies" of the associated producer organizations would directly allow the knitters to benefit from

¹ Handicraft Export Promotion Project Paper, pg. 48

the increased sales, before the organizations could become associated with the project. Nonetheless, as ADAM does not have access to the financial records of the associated producer groups, it is not possible to verify that the higher wages paid by ADAM are in fact being passed on to the knitters.

As previously discussed, the various associated producer organizations are motivated by a wide range of underlying objectives and thus all organizations are not necessarily committed to passing through the highest possible earnings to the knitters. Instead, some of the social service organizations withhold a portion of labor costs provided by ADAM to finance other services such as healthcare, social outreach programs, and vocational training. These organizations claim that since they are now marketing their products through ADAM instead of selling directly to US buyers, they now receive smaller margins. To compensate for this loss, they justify withholding a portion of the labor costs in order to continue providing the services fundamental to their own underlying organizational objectives.

Some of these organizations, such as FOTRAMA, also state that, since ADAM is able to offer higher per unit wages to the knitters, many knitters are leaving their organizations to go work directly for ADAM. However, as ADAM provides only minimal healthcare coverage, when there is a major medical emergency, these same knitters return to FOTRAMA in order to receive financial assistance to cover these costs. Thus the knitters benefit from FOTRAMA services without providing FOTRAMA with the consistent benefit of their membership. There is no question but that it is common practice for many knitters to move from one producer organization to another. There is no evidence, however, that ADAM actively recruits knitters from the associated producer organizations. ADAM cannot be held responsible for knitters moving from one organization to another in response to higher wages, as the main goal of the project is to increase knitter earnings.

2. EXPORT PROMOTION

As seen in Annex 3, ADAM is behind all project targets with regard to the level of exports that they have been able to achieve. Much of this can be explained by the extremely slow start with the technical assistance provided by Global Exchange, and the subsequent disappointing experience with Matus. However, it is important to note that even after adjusting these export targets, which were perhaps overly optimistic, ADAM has not met even its own export targets or obligations. For example, after exporting only 250 units in 1986, ADAM readjusted the 1987 project export target from 28,210 to 11,000 units. Even with the adjusted target, actual production was 10,755 units, of which only 3,618 or 33% of total production was exported. More importantly from the standpoint of future marketing efforts, of

the five major export orders that ADAM accepted in 1987, not one was completed on time and only two of the orders were 100% satisfactorily received.

ADAM has undeniably failed to meet both the original and adjusted project targets. Furthermore, its difficulties in meeting even its own export commitments have seriously strained some of its relationships with its present buyers. Nevertheless, based upon ADAM's export performance in the first trimester of 1988, ADAM appears to be learning from its past experiences, and is beginning to expand production for export. By April 1988, ADAM had already exported 2,710 units - 74% of total exports for 1987. If this same level of exports is sustained, ADAM will export 8,130 units in 1988, or approximately 225% of the total exports for 1987.

3. EMPLOYMENT CREATION

To measure the project's success in creating employment opportunities for rural artisan knitters, comprehensive data reflecting the number of knitters currently participating in the project are needed for comparison against the original project targets (see Annex 2). However, these data can only be estimated as neither ADAM nor any of the associated producer organizations have kept accurate information on the total membership of their organizations. There does exist a general consensus amongst those interviewed, however, that the actual number of knitters given in the project paper was grossly overestimated. Furthermore, many of these knitters work on a seasonal basis, and not year round, as assumed in the project paper.

In order to expand the pool of knitters participating in the project, ADAM has begun to form its own knitting groups. Since beginning its training program in 1987, ADAM has trained 1,774 new knitters, 524 of which it has transferred over to the producer organizations. Although ADAM's policy is to recruit new knitters, FOTRAMA and several other producer organizations claim that ADAM is also recruiting some of their knitters, thus decreasing their overall production capacity. Due to the absence of a systematic tracking process of knitters, and the reluctance on the part of many of the associated producer organizations to share information regarding their membership with ADAM, there is no way to determine whether or not the knitters trained by ADAM, have previously worked for other organizations or are in fact new entrants to the workforce.

III. ADAM SERVICES

In order to achieve the project goal of increasing the incomes of artisan knitters and the sub-goal of increasing the level of non-traditional Bolivian exports, ADAM is responsible for providing an integrated program of marketing, production, training, and commercialization services to the associated producer organizations. It is important to note, however, that ADAM is responsible only for providing those services, outlined in the project paper, which will directly promote the achievement of the project goals; it is not required to provide services requested by the associated producer organizations that do not promote these goals.

A. MARKETING SERVICES

To promote market development and the provision of market services, the original project design outlined the following areas of responsibility for ADAM: 1) to identify and research markets and marketing channels; 2) to develop marketing strategies for sales to the markets selected; 3) to design knitwear articles according to market demand and; 4) to act as a sales agent for the artisan knitwear groups participating in the project.

The project paper recognized that the success of the ADAM project would require technical assistance from a US-based firm in the areas of product design, market analysis and strategy development, sales services, production improvement and artisan training, quality control and management training. After a formal RFP process, a three-year \$1,993,137 technical services contract was signed with Global Exchange, Inc. (GEI) in March 1986. The contract was to provide 131 months of technical assistance in the areas of marketing, product design and production management, including 45 months of short-term technical assistance from the Fashion Institute of Technology (FIT) in New York.

The key element of the GEI contract was the provision of two long-term advisors in marketing and in-country production management. Specifically, these two experts were to: 1) coordinate all technical assistance provided through the contract 2) conduct extensive market research; 3) select target market(s) and marketing channels based upon market research; 4) present and implement a market strategy to reach target market(s), 5) select appropriate designs for target markets, 6) coordinate the purchase of raw materials and production schedules to meet export orders; 7) ensure adequate quality control; and finally, 8) develop the internal capacity within ADAM to conduct these activities upon contract completion.

The marketing component of the technical services contract with GEI was intended to promote market development for Bolivian knitwear products in the United States, as well as to increase the technical capacity within ADAM to provide marketing services. Using its "connections" and "actual sales experience in the US" GEI was to conduct extensive market research to identify target markets and channels for ADAM products, and then develop an integrated marketing/production management strategy based upon this research.

Unfortunately, GEI had little actual experience in the knitwear industry. Furthermore, GEI was unable to fully utilize its subcontract with FIT due to poor communication and misunderstandings over reimbursement. In addition, the marketing expert assigned to the project had little relevant marketing experience and did not initiate market research or develop an integrated marketing strategy.

After eight months, and the expenditure of \$691,583,² Global Exchange, Inc., had sold only 220 sweaters of the 28,210 specified in the contract agreement. As a result, ADAM cancelled the Global contract on November 14, 1986 citing the convenience clause.

The disastrous experience with GEI left ADAM severely behind schedule on all original project targets and without technical guidance in the two key areas -- marketing and production management. Wary of relying so heavily again on outside technical assistance, ADAM is now attempting to internalize the marketing and production responsibilities which GEI left unfulfilled. To market the ADAM products in the U.S., ADAM signed a six month agreement for marketing and sales services with Matus, Inc. in February 1987.³

The initial \$98,950 contract was to provide the resources necessary for Matus to carry out a promotional sales campaign in the U.S. and to take firm orders for alpaca products and other products manufactured by ADAM and associated producer groups. The second contract, signed in October 1987, provided an additional \$118,094 for the opening of showrooms in Boston and New York; sales staff in New York, Boston, Pennsylvania and Michigan; MATUS/ADAM participation in four major New York trade

² The payment of \$261,012 of the total \$691,583 remains in dispute at the writing of this evaluation.

³ Matus had bid on the original RFP to provide technical assistance to ADAM and had a long association with FORTRAMA, the oldest and largest knitwear producer organization in Bolivia.

shows; the purchase of a 1987 design collection consisting of 40 designs of alpaca garments; and the production of an ADAM catalogue to be used for the marketing of the ADAM line.

To meet its obligations under the first and second contracts, Matus was to sell a total of 8,000 units. As of April 1, 1988, however, Matus had sold only 3081 units and incurred \$179,645.00 in marketing costs. Despite the dedication of Matus and good intentions on both sides, the relationship between Matus and ADAM has been plagued by differing expectations, poor communications, and a joint inability to achieve project objectives. ADAM expected Matus to provide a high-powered marketing program, yet did not allow Matus to dictate an integrated marketing strategy. For its part, Matus had a long involvement with FOTRAMA, and was primarily interested in helping Bolivian artisans. As such, Matus would accept orders from ADAM of substandard quality in order to help out, thus wasting valuable limited marketing resources, and sheltering ADAM from the harsh realities of the international market. Although genuinely committed to the success of the project, Matus does not have the marketing savvy or experience to conduct a high-powered marketing program at this time.

With this overview of ADAM's marketing development efforts with both GEI and Matus, it is now possible to examine in greater detail ADAM's subsequent performance in each of the areas of responsibility outlined in the original project design.

1. TO IDENTIFY AND RESEARCH MARKETS AND MARKETING CHANNELS

Although both GEI and Matus conducted extensive market research in order to identify possible buyers, neither conducted systematic or comprehensive market research to identify specific U.S. markets for Bolivian knitwear products, and the marketing channels necessary to reach those markets. Instead, both entities identified themselves as the appropriate marketing channels for ADAM, and then targeted the markets which they had the capacity to reach, rather than the most appropriate markets with the greatest potential for ADAM products. As a result, ADAM's marketing efforts became limited to extremely small and low-potential markets.

Recognizing the need for comprehensive and systematic market research, ADAM recently initiated its own market research efforts, including extensive consultation with USAID and the U.S. Commercial Section in La Paz, as well as promotional visits to the U.S. by ADAM's Executive Director and President of the Board of Directors. These efforts indicate ADAM's awareness of the need for market research, and have resulted in some valuable U.S. contacts. In Bolivia, however, ADAM has concentrated efforts on U.S. government entities with little knowledge or understanding

of the actual U.S. marketplace. Furthermore, such efforts are not useful unless conducted as an integrated component of a well-defined marketing strategy. Market research cannot be conducted on a sporadic basis by individuals within ADAM who possess little knowledge of the U.S. market and market requirements, and who are thus forced to rely heavily on several conflicting and highly biased individual sources with personal interests in the strategies that they promote.

2. TO DEVELOP MARKETING STRATEGIES FOR SALES TO THE MARKETS SELECTED

The project paper stated that after ADAM conducted extensive market research and identified a specific target market based upon this research, a comprehensive integrated marketing strategy would then be developed. However, as a result of the failure of both GEI and Matus to conduct systematic and comprehensive market research and ADAM's own inexperience, ADAM is ill-prepared to identify potential U.S. markets for Bolivian knitwear products. Without comprehensive market research and a thorough understanding of the demands and requirements of the U.S. markets, ADAM has been unable to target a specific market for its products or develop a well-defined marketing strategy to reach that market.

3. TO DESIGN KNITWEAR ARTICLES ACCORDING TO MARKET DEMAND

In absence of a clearly defined target market and well-coordinated marketing strategy, ADAM has attempted to be responsive to all markets. In its Marketing Report for 1988, ADAM stated that it would target the following market lines: clothing for children and adults of both sexes in the lines of sportswear, fashion and traditional styles. As a result of this all-inclusive market orientation, ADAM has developed some 120 different designs for both men and women in alpaca, llama and pima cotton. ADAM has also purchased a complete line of designs from Matus and will reproduce the designs of other clients.

The sheer number and diversity of these designs shows that ADAM is acutely aware of the need to be market responsive. Yet ADAM is not presently capable of producing such an extensive range of designs, styles and sizes. This was best illustrated by the last order for 832 single-color sweaters from Andean Imports. In this order, each individual style came in a minimum of five different colors and in four sizes each for both men and women. In total, each sweater had the possibility of 32 various combinations of color and size. Since the knitters who work for ADAM and the associated producer organizations primarily work in their homes in areas far removed from the organizations' centers, this order presented enormous problems in ensuring uniform quality control standards. Indeed, ADAM managed to fill only 69%

of the original order, of which only 38% were of acceptable quality. As a result, ADAM has not yet been paid for the order and stands to permanently lose this customer. Although this order was somewhat unique in that it was the first time that ADAM had worked in a material other than alpaca, it clearly showed that ADAM is not capable of managing such a disparate line of products at this time.

Equally important to ADAM's long term development is the promotion of an identifiable ADAM line. At present, ADAM products are not recognizable as uniquely belonging to ADAM. It is much easier, as well as much more profitable, to market a coordinated line of (10-20) sweaters. Part of this problem is a result of ADAM not having designed their products in response to a specific target market. Nevertheless, the development and quantity reproduction of a manageable coordinated line of ADAM designs must be an integral component of ADAM's overall marketing strategy, regardless of which market ADAM ultimately chooses to target. Even the largest designers present coordinated lines for each season. The development and reproduction of a manageable, coordinated line of new designs must be an integral component of ADAM's overall marketing strategy.

4. TO ACT AS A SALES AGENT FOR THE ARTISAN KNITWEAR GROUPS PARTICIPATING IN THE PROJECT

As visualized by the project designers, ADAM provides services to the organizations free of charge and acts as a loosely-operated trading company, taking actual title to the goods produced by the associated organizations.

In this capacity, ADAM provides the raw material in addition to a percentage of the labor costs (usually 50%) upon placing an order with the organization. Labor costs are determined by ADAM and are based upon the cost of raw materials plus a fee for level of difficulty. Upon completion of the order, ADAM pays the producer organizations the remaining portion of the labor cost plus overhead. Overhead rates represent a percentage of the final sales cost and the level of difficulty of the sweater and are not affected by whether ADAM provides the necessary instruction for the order free of charge. Average overhead per unit for 1987-88 was \$5.48 (65% of the average labor cost per unit). After making the final payment to the producer organization, ADAM then inspects the sweaters and prepares them for shipment to the U.S. buyer, who pays ADAM only upon satisfactory receipt of the order.

As a result, ADAM assumes the majority of risk for the successful production of the order. ADAM receives payment from the U.S. client only upon satisfactory delivery, while it makes advance payments to the knitting organizations and routinely pays the balance due, or final payment, to the organizations

regardless if deliveries are late and/or require additional work by ADAM's staff to repair defects. By providing the raw materials free of cost, ADAM allows the producer organizations to take orders where they would otherwise lack the capital to initiate production. This modus operandi has allowed several producer organizations to expand production and pay their knitters higher wages. No formal agreements, however, exist between ADAM and the associated producer organization for audits, or even formal reports which would confirm the amounts actually being paid to the knitters, as well as providing an objective basis for negotiation of "overhead" and "utility" rates paid to the organizations by ADAM. Although several of the organizations, such as Summaj Inti and Ameridia expressed their willingness to allow ADAM access to their internal records, organizations such as FOTRAMA are completely unwilling to accept this procedure.

Although FOTRAMA and the other producer organizations have clearly benefitted from the provision of ADAM services and ADAM acting as a trading company, some of the organizations complain that one major disadvantage of the new system is that clients who before purchased directly from them now prefer to purchase through ADAM, thus diminishing the margins they earn.

As discussed previously, the fundamental, and perhaps unreconcilable, conflict between ADAM and these organizations lies in the differing underlying objectives of the organizations. For those organizations structured along purely for-profit lines, expanded production, even with diminished per unit margins implies a greater total profit. However, for those organizations who view their purpose to provide social services, diminished per unit margins imply less funding for social services and the need to divert more energy and attention towards the production of knitwear products, and away from their primary goal of providing social services.

FOTRAMA also claims that, in becoming a trading company, ADAM entered in direct competition with the previously established producer organizations and ignored its commitment to market products independent of the ADAM label. In order to develop market recognition and establish itself within the U.S. market, however, ADAM must market its products under the ADAM label, even if they are produced by the associated producer organizations. To its credit, ADAM did sell 5,000 units of FOTRAMA inventory in 1987, through Matus, but has not undertaken separate marketing efforts on FOTRAMA's behalf.

In response to the claim that ADAM has entered into direct competition to the associated producer organizations, it is true that ADAM has established independent knitter groups. According to ADAM management, however, these groups are not meant to compete directly with the associated producer organizations, but rather, provide ADAM with a secure source of production in instances where the associated producer organizations are unwilling or unable to produce ADAM orders.

B. PRODUCTION SERVICES

To develop internal production management capacity and the provision of production services, the original project design outlined the following areas of responsibility for ADAM: 1) To assist in the procurement of wool and/or yarn by participating artisan organizations; 2) To coordinate production volumes and scheduling to fill overseas orders and; 3) To ensure quality control in the production of knitwear for export. As in the area of marketing, production services have clearly suffered from the absence of a highly qualified and demanding production manager able to coordinate all stages of the production process and enforce strict operating control.

1. TO ASSIST IN THE PROCUREMENT OF WOOL AND/OR YARN BY PARTICIPATING ARTISAN ORGANIZATIONS

Although ADAM now provides the associated producer organizations with all of the raw materials necessary to produce ADAM orders, ADAM itself has consistently suffered as a result of delays and errors in the supply of raw materials from Peru (where the main suppliers of Bolivian alpaca are located). In an attempt to insure more reliable supply, ADAM has entered into exclusive agreements with Mitchell Co., and the other major suppliers, and now maintains a large inventory of alpaca, llama, and pima cotton yarn.

To monitor the inventory and usage of raw materials, ADAM has developed a detailed raw materials flow chart (see Annex 8), in addition to extensive paperwork to monitor this flow. All raw materials are tracked from their arrival at ADAM through their delivery to the producer organizations. Since ADAM lacks an integrated marketing strategy, which would allow it to predict future demand of finished products, this monitoring process is not adequate to gauge future demand of raw materials and to schedule their order.

2. TO COORDINATE PRODUCTION VOLUMES AND SCHEDULING TO FILL OVERSEAS ORDERS

Due in large part to an unfocused and poorly developed marketing strategy, ADAM has not been entirely successful in integrating its marketing efforts with the purchase of raw materials and production scheduling. Without a clearly defined marketing strategy, ADAM cannot anticipate future demand. Recognizing the need for market responsiveness, ADAM has accepted orders which it was unable to manage successfully, resulting in the late delivery of the majority of its export orders -- marketing suicide in the highly competitive knitwear garment industry where all the major buyers are known to one another. In order for ADAM to become a market-responsive, financially self-sufficient private enterprise, it must meet its export obligations and deliver high-quality products in a consistent and timely manner.

A well-defined market strategy would help to focus ADAM's production efforts. Nevertheless, the largest contributing factor to ADAM's production management problems is the absence of a system for gathering quantifiable data upon which to base the purchase of raw materials and realistic estimates of production capability (in both volume and time required). Without such a system, ADAM is unable to determine actual need for raw materials based upon expected production. Production scheduling has also consistently suffered as a result of poor communication and misunderstandings between ADAM and both the associated producer organizations and export buyers. This is in large part exacerbated by the absence of a set of clearly defined ground rules and operating procedures. There are few written contracts or set agreements, thus allowing much room for individual interpretation.

3. TO ENSURE QUALITY CONTROL IN THE PRODUCTION OF KNITWEAR FOR EXPORT

ADAM has not been successful in implementing a standardized quality control process. As a result, a significant portion of the knitwear products produced for ADAM, by both the associated producer organizations and the independent ADAM groups, has been marred by inconsistencies in sizing, design, pattern and color. ADAM sweaters retail in the United States for \$160 - \$250. In the high-end market where these products are sold there cannot be the slightest inconsistencies. Both the individual products and the entire shipment must be perfect in order to ensure a continuing relationship with the buyer.

Geographic distribution of both the individual knitters and the associated producer organizations in Bolivia necessitates the decentralization of the quality control process. As such, instructors for the independent ADAM groups are responsible for quality control in their classes. Each producer organization has

it's own unique quality control process, which range from field extension agents who visit the knitters while the work is in process, to local group leaders in rural areas. Upon receipt of the garments from the knitters, the producer organizations pass them through an internal quality control, in addition to on-site inspections by ADAM quality control specialists, before formally turning the garments in to ADAM. At ADAM, garments are then put through an additional test of quality control. The weak spots in this process are as follows:

- 1) The nature of de-centralized quality control requires a large number of persons to be involved in both the field and the organization centers allowing greater room for disparities in acceptable quality levels;
- 2) Many of the instructors and group leaders responsible for quality control have not been adequately trained and thus do not fully understand the absolute necessity for rigorous quality control for the export market. As a result, they have allowed many garments to pass through to ADAM without realizing that these garments are in fact unexportable;
- 3) A small number of the producer organizations have resisted letting ADAM become involved in the quality control process, and even have gone so far as to deny ADAM quality control specialists entrance into their centers;
- 4) ADAM specialists responsible for quality control have not been entirely consistent, thus at times approving garments in the field which are then rejected during the more rigorous quality control at ADAM;
- 5) Quality control within ADAM is not organized by clearly defined centers of responsibility and leadership.

C. TRAINING SERVICES

In the provision of training services, the project paper outlined the following areas of responsibility for ADAM: 1) to develop and carry out training courses for knitters and 2) to develop and carry out training programs in management disciplines (accounting, inventory control, personnel management, etc) for the staff of participating knitwear organizations. Under the original technical services contract, GEI was to coordinate all training activities. After GEI's departure, ADAM assumed complete responsibility for the design, scope and provision of training services.

1. TO DEVELOP AND CARRY OUT TRAINING COURSES FOR KNITTERS

ADAM has provided 41 training courses in design, color, dying, knitting techniques and quality control for a total of 1193 participants (513 knitters from the associated producer organizations and 680 knitters from the independent groups). ADAM also facilitated USAID scholarships for 20 indigenous knitters to visit U.S. knitwear production centers.

In addition, ADAM has mobilized impressive amounts of technical assistance from the German aid agency (GTZ) and the Canadian Executive Services Organization (CESO). GTZ has provided technical assistance in design, color, dying, and marketing. CESO has also provided technical assistance in these areas, in addition to training for two engineers who work within FOTRAMA in spinning and dyeing (financed by ADAM). The number of individuals and organizations who have received training from ADAM is extensive. Nevertheless, like ADAM's marketing and production efforts, the provision of training services has not been part of an integrated development plan. Rather, training has been provided free of charge, to the producer organizations upon request. Thus training has been largely responsive to the needs of the producer organizations, and not always within the scope of ADAM's own needs and objectives.

2. TO DEVELOP AND CARRY OUT TRAINING PROGRAMS IN MANAGEMENT DISCIPLINES (ACCOUNTING, INVENTORY CONTROL PERSONNEL MANAGEMENT ETC) FOR THE STAFF OF PARTICIPATING KNITWEAR ORGANIZATIONS

ADAM has financed management training and individual scholarship programs in administrative systems, accounting and inventory control for representatives from all of the associated producer groups involved in the project. These programs have been administered through GTZ, CESO and the Institute for the Development of Businessmen and Administrators (IDEA).

D. COMMERCIAL SERVICES

In addition to providing technical marketing, production and training services, part of ADAM's mandate is to provide commercial services to: 1) facilitate commercial services (such as credit and transportation) required by participating knitwear organizations to operate their businesses and; 2) assist knitwear organizations in carrying out the government of Bolivia's exporting procedures, and to lobby the government for this simplification.

1. TO FACILITATE ACCESS TO COMMERCIAL SERVICES (SUCH AS CREDIT AND TRANSPORTATION) REQUIRED BY PARTICIPATING KNITWEAR ORGANIZATIONS TO OPERATE THEIR BUSINESSES

Since ADAM provides all of the necessary raw materials plus a portion of the labor costs to the associated producer groups in advance of production, these groups have been able to expand production without having to obtain additional credit. Nevertheless, ADAM has assisted several of the associated producer organizations to file the necessary documentation to obtain formal credit, in addition to co-signing a \$30,000 loan for Amerindia.

Operating as a trading company, ADAM now takes responsibility for the transportation of all export orders. To decrease the cost of transportation costs to the United States, ADAM is presently negotiating with Lloyd Aereo Boliviano to obtain reduced rates for the export of ADAM products.

2) TO ASSIST KNITWEAR ORGANIZATIONS IN CARRYING OUT THE GOVERNMENT OF BOLIVIA'S EXPORTING PROCEDURES AND TO LOBBY THE GOVERNMENT FOR THIS SIMPLIFICATION

ADAM is actively lobbying the Bolivian government to simplify import and export procedures as well as to loosen foreign exchange requirements. As a result of the efforts to date, the Bolivian government waived the import duties on three shipments of Peruvian alpaca for Amerindia FOTRAMA and Angora Y Alpaca.

ADAM is also lobbying the U.S. Embassy in La Paz to use their influence to help ADAM become eligible for import duty exemptions under the GATT. At present, ADAM products are levied U.S. duties as textiles. Under the GATT agreements, artisan products are exempt from these duties.

IV. FINDINGS AND RECOMMENDATIONS

In general, the review of the approximately two years of project implementation affirms the basic concepts, assumptions and strategies reflected in the original project design. There does exist a substantial international market for handknit alpaca sweaters, especially for "high-end" products, and these items can be produced competitively in Bolivia. Most importantly, there is a vital role for ADAM to play in linking Bolivian artisan producers to the international market.

Since the inception of the project in 1985, ADAM has evolved into a dynamic and well-respected private sector organization. Although it has admittedly fallen short of the original project targets, it has solidly established itself within the knitwear industry. ADAM's performance to date is even more impressive considering that it has been accomplished without the technical assistance originally envisioned.

It is the conclusion of the evaluation team that, within the framework of the findings and recommendations of this report, the ADAM project deserves consideration by USAID/Bolivia for continued support and assistance. As should be expected from an experimental project like ADAM, much has been learned from the initial project experience, and there is a need to build on this experience in many areas if ADAM is to achieve the project's goals and take full advantage of the potential export market for Bolivian knitwear products. The results of this evaluation consistently support and reinforce the basic goals and key strategy elements of the original project design, and the findings and recommendation below are presented within the framework of these goals and strategies.

A. THE PRIMARY GOAL OF THE PROJECT IS TO INCREASE THE EARNINGS OF ARTISAN-KNITTERS IN BOLIVIA. THE SUB-GOAL IS TO INCREASE THE PRODUCTION AND EXPORT OF BOLIVIAN KNITWEAR PRODUCTS.

Although everyone involved with the ADAM project who was interviewed for the evaluation was generally aware of and committed to these goals, this commitment is not reflected in a well-articulated systematic process to monitor and measure progress toward achievement of these goals. Although there is a consensus among those interviewed that the ADAM project has generated increased quantity and quality of knitwear production for export, and that the artisan-knitters are being paid more per unit for the sweaters produced for the ADAM project, the data available is not adequate or reliable enough to conclusively support these claims.

The project paper outlined some of the projected relevant indicators and presented some preliminary data. Subsequently, ADAM has prepared progress reports on some of these indicators, including some special tabulations prepared for this evaluation. As previously discussed, however, an analysis of these reports reveals numerous errors and inconsistencies, omissions and possible duplications.

Recommendation: ADAM should design and implement a systematic and uniform process to monitor and report progress toward achievement of these basic projects goals, including the establishment of reliable baseline data from which to measure progress. The support and cooperation of all the participating knitting organizations will be essential for the success of this effort.

B. THE FIRST AND MOST IMPORTANT COMPONENT OF THE PROJECT STRATEGY OUTLINED IN THE PROJECT PAPER IS THE RIGOROUS APPLICATION OF A MARKET-ORIENTED APPROACH IN ORDER TO PRODUCE FOR SPECIFICALLY IDENTIFIED MARKETS, AND IMPROVE PRODUCTS SO THAT THEY APPEAL TO INTERNATIONAL BUYERS.

In the initial stages of the evaluation, extensive interviews were conducted with marketing experts in the U.S. handmade knitwear industry, including most of the U.S. buyers who have done business with ADAM. These interviews, together with related market research, confirmed the existence of a substantial international market for handknitted alpaca sweaters (especially for "high-end" products), and the proven capacity of Bolivian artisan-knitters to produce competitive products for this market.

One of the most valuable insights which emerged from these interviews was the characterization of this international market as having two distinct channels to production sources:

- (1) The first channel serves a limited segment of the market requiring specialized intermediaries (such as Peter Whelan/Andean Imports, Tom Brush/Pavo Real, etc.). These intermediaries are prepared to provide the services necessary to link the relatively unsophisticated producers with retail outlets that, although ultimately demanding high standards before purchasing a product, are willing to take a chance with producers who may have shortfalls in delivery dates and quality control.
- (2) The second channel serves a much larger segment of the market that may deal directly with production sources and/or through "normal" import/wholesale networks, but which will deal only with production sources that have established reputations for on-time delivery of quality products (i.e., "zero rejects").

Any short-term marketing strategy developed by ADAM will have to take into account the widespread perception in the international market that Bolivian knitwear production falls in the first category. It would probably be fruitless, or at the least highly frustrating, for ADAM to attempt to pursue the second market channel at the present time. Identifying and working successfully with clients operating in the first channel such as Andean Imports, Pavo Real, etc. is a valuable and essential phase in the evolution of a long-term marketing strategy to gain access to the full spectrum of the international market.

Recommendation: For the short-term (12-24 months), ADAM's marketing strategy should be to strengthen existing relationships with special intermediary clients (such as Andean Imports, Pavo Real, etc.) focusing on production and quality control, i.e. making timely delivery of orders with zero-rejects. Simultaneously, ADAM should work to develop a long-term marketing strategy (2-5 years) to penetrate a broader spectrum of the international market. This strategy should be based on realistic assessments and projections of the Bolivian production capability harnessed by the ADAM project.

The successful development and implementation of these short and long-term marketing strategies will confront two critical weaknesses in the ADAM Project identified in the project paper, but not resolved to date: the need for highly specialized, expert consulting/technical assistance services, both long and short-term, in the areas of marketing and production management.

As previously discussed, the contracts with Global Exchange and Matus, plus the various short-term technical assistance engaged by ADAM have not met this critical need. More to the point, they may have exacerbated the problem with hit and miss, inconsistent and often conflicting advice and efforts.

Recommendation: The highest priority should be assigned to initiating an appropriate process to recruit and engage the two key long-term experts required to assist ADAM in the areas of marketing and production management. The primary role for these two long-term experts would be to develop the overall marketing strategy and production system that would provide the context and guidelines for all other project activities, including the appropriate use of other short-term technical assistance.

Although the project paper envisioned acquiring these experts through a contract with a consulting firm, the possibility of recruiting and contracting directly with these individuals should also be explored. The flexibility provided by the direct contracting approach may enhance the prospects for acquiring the best individuals available and negotiating the special package of base compensation and incentive bonuses necessary to attract and

motivate the type of private sector professionals required. Furthermore, after almost two years of project experience, the Board and executive staff of ADAM should be better prepared to handle the responsibility for recruitment, negotiation and management of these experts, regardless of which approach is used.

The project paper also indicated that both of these two key long-term experts should be stationed in Cochabamba. The review of project implementation to date, as well as the interviews conducted for this evaluation, confirm the need for the production management expert to be resident in Cochabamba where he/she can assist with the day-to-day process of production and quality control. On the other hand, there may be significant advantages to stationing the marketing expert in the U.S. where he/she can stay in day-to-day contact with the market while maintaining communication with the ADAM project through frequent visits to Bolivia and a sophisticated telecommunications system (i.e. FAX, telex, computer telephone links, etc.).

Until these two experts are on board, ADAM is likely to continue to make only limited and incremental improvement in the areas of marketing and production management/control. Although it was not within the scope of work or the expertise of the evaluation team to develop detailed technical recommendations in these areas, there are some general observations that would provide opportunities for the ADAM Board and Executive staff to make some worthwhile improvements within the current resources of the project.

A comparative analysis of the data for total production of sweaters generated by ADAM for 1987 and the first trimester of 1988 vs. the number of units actually exported during the same period indicates that roughly one-third of the units produced for ADAM were actually exported. Even allowing for some slippage in the time frames between production and shipment to clients, in addition to surplus production channeled to the domestic retail market, a gap of approximately 50% between production and export volumes falls far short of the strategic objective of "producing for specifically identified markets".

Another key element of a "market-oriented" strategy is to have a production and quality control system that delivers orders on time and with zero-rejects. Based on the data provided by ADAM (see Annex 7), all of the six major export orders shipped in 1987 and 1988 to date were behind schedule for periods ranging from several weeks to several months. Furthermore, only two of these six major export orders were judged by the buyers to be 100% satisfactory in quality.

It should be emphasized that this performance is by no means unusual in the context of similar artisan-based production/export projects sponsored by AID, during similar start-up periods. Nonetheless, these data provide strong support for the recommendation above that ADAM focus primary attention on producing on time with effective quality control before attempting any major expansion of its existing client base.

C. THE SECOND STRATEGY ELEMENT OUTLINED IN THE PROJECT PAPER IS TO RUN THE ADAM PROJECT ON A "BUSINESS-LIKE BASIS."

The project designers acknowledged that "too many (AID sponsored) handicraft projects in the past have been run with more emphasis on social development" than on the "real world" requirements to generate sales and develop successful (i.e. profit-making) business ventures. Although ADAM is not a for-profit entity, it was intended to operate as a profit-making business and to develop the capability to be a viable, self-sustaining private enterprise "by the end of the fourth year" of the project.

ADAM has made very substantial progress toward achieving this objective in terms of internal organizational structure, services provided, and export achieved to date. Virtually all the elements of a profit-making business are in place and the project is moving in the right direction. There are, however a few basic elements lacking that would help ADAM focus all of these assets and activities toward becoming a viable, profit-making enterprise.

- (1) ADAM does not have an operational "Business Plan" that: articulates its basic business goals and strategies; incorporates and relates a marketing strategy, production plan, and administrative, management and operating procedures; estimates and projects costs, revenues and profit margins; and anticipates the resources and timeframes required to reach a point where the project would be a profit-making, viable, self-sustaining enterprise.
- (2) Although the Board and Executive Director of ADAM are well aware of and committed to operating the project on a business-like, profit-making and, ultimately, self-sustaining basis, the pervasive impression one gets from the staff of ADAM and representatives of the participating knitting organizations is that ADAM is a short-term project intended to channel USAID funds to support and subsidize their activities.

The Board and Executive staff are well aware of these prevailing attitudes and repeatedly referred to the fundamental need to "change mentalities" in order for the project to succeed. The awareness of the problem, however, has not yet been translated into a specific program of information and communication activities, incentive bonuses, and appropriate resource allocations required to resolve the problem.

- (3) The various management and administrative "systems" developed by ADAM describe what and "how to" do required activities but these activities are not implemented within the context of specified and measurable objectives, targets and timeframes. The case is the same for flow-diagrams and procedures for the production process. In addition, although the ADAM staff has recently completed development of a comprehensive accounting control system, they are just now prepared to design the next phase of the system so that the real cost of specific products and activities can be determined, as a basis for structuring prices and estimating profits.

Recommendation: ADAM should prepare and routinely update a business plan, including a simple spreadsheet program that illustrates and projects costs, revenues, cash flows, profits and losses. The most important element of this business plan would be to specify the quantifiable targets and time frames for the ADAM project to become a profit-making, self-sustaining enterprise.

The funds USAID is providing for the ADAM project are neither a loan that must be repaid or even an investment in the sense that the ADAM project, strictly as a business venture, would have to show a rate of return on the USAID "investment". Nevertheless, in order not to distort the stated purpose of the proposed business plan, USAID funds should be incorporated into the business plan as a revenue source with specific allocations over a limited timeframe. The business plan would then have to reflect and project a decreasing dependence on this USAID subsidy until a specified time when the project becomes profit-making and self-sustaining.

The project paper anticipated the use of bonus payments to producers and employees as motivation for increased productivity. To facilitate this strategy, the ADAM staff should explore the feasibility of structuring the project into "profit centers," or at least discrete operational units, so that bonus payments may be related to the performance of both individuals and units, thus fostering both constructive competition and teamwork.

The ADAM staff should also review its systems and procedures for various project activities, especially those related to production and quality control, to rationalize these activities by specifying quantifiable objectives, targets and timeframes, and allocating discrete responsibilities to specific individuals and/or units or teams. The integration of a well structured and administered management by objective, (or "M.B.O.") system with a carefully structured bonus/incentive payment system should make a major and meaningful contribution toward "changing mentalities," in addition to substantially improving productivity and profits.

Recognizing the inherent technical difficulties, as well as the natural resistance, which can be anticipated in applying some of these concepts to the participating knitting organizations, it would be advisable for ADAM to initiate these activities as a "pilot" project with its internal staff and the independent knitting groups established by ADAM. Once the systems are operational and positive results can be demonstrated, it should be easier to get the support and cooperation of the knitting organizations for the gradual expansion and incremental application of these strategies throughout the ADAM project.

Another advantage of initiating these project management refinements within the ADAM staff and its independent knitting groups is that it will provide an informed basis for comparative analysis of the capabilities and cost-effectiveness of the various knitting organizations. This will assist ADAM not only in allocating production targets and negotiating price structures with each organization, but also in identifying problems and areas where ADAM could provide training and technical assistance to resolve problems and improve the productivity of the respective organizations.

In the process of reviewing and refining the systems and procedures for production management and quality control, there are three problem areas identified during the evaluation which deserve the attention of the ADAM staff.

- (1) Many of the problems and delays which have occurred during the production process could be traced back to a failure to clarify and reach mutual (and well documented) agreement with the client on the details of each order. Related to this problem is the lack of a well-structured communication and negotiation process between ADAM and the knitting organizations to establish a realistic basis for commitments to the client to provide specific products within specific timeframes.
- (2) Once the ADAM staff develops a more refined production system, specifying targets, timeframes, individual and unit responsibilities, etc., it should attempt to sharpen its

learning curve and improve future performance by carefully reviewing its performance on each production/export order, pinpointing problems, developing solutions and modifying the production system to incorporate these improvements on an ongoing basis.

- (3) As stated previously, a system of bonus and incentive payments should be structured to motivate everyone associated with the ADAM project to increase productivity, with special attention given to developing effective (and creative) strategies for a system of financial and other incentives to motivate the artisan-knitters. For example, once a base rate is established to pay a knitter for a specific sweater within a specific timeframe, an appropriate bonus could be offered for completing the sweater significantly ahead of schedule, and another bonus could be paid if the sweater is delivered with zero defects within the prescribed and/or shorter deadline.

Such a system would not penalize the less experienced or less capable knitter who needs the full time allotted to finish the sweater, or who may require additional time and/or assistance to correct certain defects determined during the quality control inspection. On the other hand, this system, would motivate and reward the more competent knitters and contribute to overall increased productivity for the ADAM project.

Assuming appropriate record-keeping of the performance and payments to the individual knitters by ADAM and the participating knitting organization, a valuable by-product of this incentive system would be the enhanced capability of ADAM to estimate and project production and export/delivery targets based on a more precise estimate of the production capability of various groups of knitters.

All of the above recommendations should be incorporated in a comprehensive, ongoing training and communications program to increase the awareness and positive attitude of all persons involved with the ADAM project. Such a program should clearly articulate to all project participants the importance of increasing productivity and quality control in order to expand the export market for Bolivian knitwear products. The program should also explain the rationale behind increased earnings and profits through larger sales volumes at lower prices. At present, many of the associated producers organizations, and the majority of the knitters do not understand the inverse relationship between productivity and earnings. They feel that as they produce higher quality, more difficult designs, earnings should increase in proportion to the quality and level of difficulty. In fact, in order for ADAM to become more competitive in the international market, it will have to lower

the cost of its products to the overseas buyers. This means that as the knitters become more productive, they will receive less per unit, but greater total earnings.

The need for this type of training and communications program can not be overstated. Attention to the technical aspects alone of marketing, production, finance and management will not overcome the constraints to the ADAM project rooted in the counter-productive attitudes and behavior patterns of many of the project participants. The effort to "change mentalities" must reach to the grass roots of the project, integrate all aspects of the project, and involve a substantive and long-term commitment of project resources.

D. THE THIRD STRATEGY ELEMENT OF THE PROJECT IS TO PURSUE SIMPLIFICATION AS MUCH AS POSSIBLE.

It was the expressed intent of the project designers to focus exclusively on the effort to increase the exportation of artisan knitwear until the project established its viability. Although a too-rigid interpretation of these guidelines would not necessarily be in the long-term interest of the project, the results of project implementation to date re-enforce the wisdom of this strategy.

The attempt to produce a varied line of knitwear products for a broad spectrum of the export market has compounded the problems of production, quality control and timely delivery of orders. Furthermore the ambitious plans and initial steps already taken to expand into the production of leather handcrafted garments, as well as the "vertical integration" of the project to include camelid and yarn production, is difficult to justify in the face of the many yet unresolved problems in the production and export of a basic line of knitwear products.

Recommendation: For at least the next 12-24 months the ADAM project should concentrate on improving its production system and expanding its base of satisfied buyers in the international market for a limited, high-quality line of hand knitted alpaca sweaters.

The focus on production of a more limited line of sweaters for a targeted market should reduce the complexity and improve the performance of the production and quality control systems. This should result in the enhancement of ADAM's reputation and identification in the international market for knitwear products which, in turn, should provide the foundation for expansion of the export market and increased production of high quality Bolivian knitwear products.

The ADAM Executive staff has initiated an effort to "spin-off" its domestic retail outlets and possibly expand this retail network through some form of franchise structure. This effort should be encouraged and facilitated. A network of domestic retail outlets is a valuable mechanism for disposing of surplus production which, for a variety of reasons, can not be channeled to the export market. But the responsibility for day-to-day management of such a network is a substantial drain on ADAM's limited executive staff resources, especially at this initial stage of project implementation.

For this same reason, the ADAM Board and executive staff should reconsider the efforts which have been initiated to expand into production of new leather product lines, as well as the vertical integration into camelid and yarn production. Granted that these activities may be relevant, even essential, to the success of the basic ADAM project, the results of this evaluation strongly suggest that it would be advisable to seek and encourage other entities to develop these activities while the ADAM Board and Staff focuses on its priority agenda.

E. THE FOURTH AND FINAL STRATEGY ELEMENT OF THE PROJECT IS TO WORK WITH ARTISAN KNITWEAR PRODUCER ORGANIZATIONS WHICH REMUNERATE THEIR KNITTERS WELL SO THAT THE PROJECT GOAL OF INCREASING THE INCOMES OF ARTISAN KNITTERS CAN BE ATTAINED.

A central element of the project paper was the strategy or organizational approach that would be used to link the productive capacity of the Bolivian artisan-knitters to the export market. As previously discussed, various alternatives were considered before deciding to structure ADAM as a not-for-profit "service organization". To better understand the relationship which has evolved between ADAM and the various knitting groups it is useful to classify them as follows:

Type A: - Includes three of the original producer organizations participating in the project: FOTRAMA, Amerindia and Las Imillas. The relevant common characteristic of these three groups is that they are private, not-for-profit, social development organizations that use the revenues gained through the sale of knitwear production to support social service agendas.

Type B: - Includes one original participant, Kay Huasy, and four additional organizations. All Type B organizations are private, for-profit businesses specializing in knitwear production.

Type C: - Is comprised of the independent knitting groups, organized, trained and managed by ADAM. All Type C groups produce knitwear exclusively for ADAM whereas both Type A and B groups produce some knitwear for their own clients, domestic and/or export, apart from the sweaters they market through ADAM.

ADAM provides the raw materials and pays the same amount per sweater, depending on the model, to knitters in all three types of groups. ADAM also uses the same payment formula and policies in its dealings with the type A and B groups but since ADAM manages the type C groups directly, the cost for "overhead" and "utility" for the production of the latter groups is incorporated in the overall operating costs of the ADAM project.

It should be noted that, as the ADAM project evolves, there is also the potential for ADAM to work with a fourth category, Type D, of knitting organization: Private, for profit businesses, self-sufficient in knitwear production, that would use ADAM as a marketing and sales agent, as well as a convenient source of raw material and selected training and technical assistance. This type group would, however, pay for whatever materials and services ADAM provides on a standard fee-for-service basis. ADAM might limit its risk further with this type group by acting strictly as a sales agent, paying them for products only after the U.S. buyer has paid ADAM and ADAM has discounted its commission.

There are numerous areas of mutual interest between ADAM and each type of knitting organization and various advantages and disadvantages to the way these relationships have evolved. The organization's provide the grass root linkage to the knitters. Even as ADAM develops its own independent knitting groups, the established knitting organizations can continue to provide an important source of production to support the expanding international market ADAM hopes to develop. ADAM, in turn, provides the organizations with access to the international market, training and technical assistance, raw material and assured cash flow during production.

As discussed previously however, there may also be some inherent conflicts of interest in these relationship that will have to be overcome in order for all the participants to realize the full potential of this mutually beneficial cooperative effort. For example, as ADAM strives to become a more cost-effective, "for-profit" producer for a demanding export market, the emphasis on tougher production standards and quality control, increased productivity and lower profit margins, may conflict with some of the social development objectives of the type A organizations, at least when viewed from the short-term perspective of those organizations. On the other hand, the strictly "for-profit" orientation of the entrepreneurs that direct the type B organizations may not be entirely consistent with the primary goal of the ADAM project -- to pass through the maximum possible earnings to the artisan knitters. Lastly, although the

development of the independent knitting groups (type C) may be viewed as a critical element of ADAM's long-term growth strategy, in the short-term some of the type A and B organizations see this as a threat to their own development, if not their very existence.

Regardless of what alternative organizational approaches were considered or intended by the project designers, ADAM has evolved into a hybrid entity with a mix of organizational relationships, each in its own way presenting problems and opportunities for the long term, successful development of the ADAM project.

Recommendation: Recognizing the many reasons why ADAM may have had to feel its way through the start-up phase of the project, it should now translate this experience into a well articulated policy framework and guidelines for its future development. The definition of the project's organizational strategy and operating policies should be a dynamic process involving technical, financial and complex social-political considerations, and requiring the ongoing attention and intensive efforts of the ADAM Board, executive staff and specialized technical consultants. The following observations and suggestions are intended to assist in this process.

- (1) ADAM should maintain its commitment to work with and expand all three types (A, B, and C) of organizations, as well as seeking new relationships with the type D organizations described above. Having access to alternative sources of production, with a wide range of capabilities, may improve ADAM's flexibility in responding to market opportunities, as well as facilitating access to the broadest possible network of artisan-knitters.
- (2) To make the most effective use of the various knitting groups, however, ADAM must establish a much improved system for monitoring and measuring the comparative performance of each group for each production order assigned by ADAM, including some form of cost accounting and audit. The results of this ongoing-analysis would provide an informed basis for production planning (assuring timely delivery to buyers), structuring prices, and negotiating payment formulas and production targets with the knitting organizations.

Although a case may arise when ADAM may have to terminate its relationship with a knitting organization because of repeated poor performance or simply a failure to agree on a mutually satisfactory working arrangement, the systematic comparative analysis process suggested above would also serve to identify

specific issues to resolve through negotiation and/or problems which ADAM could help the organization to address with training and technical assistance as a means of anticipating and, hopefully, avoiding a crisis situation that would require termination of the relationship.

- (3) ADAM and the producer organizations should also work together to develop a systematic evaluation process wherein both parties can evaluate the range and effectiveness of the services provided. Although the monthly meetings between ADAM and representatives from the associated producer organizations provide a forum for discussing issues of joint concern, they do not allow for systematic, in-depth evaluation of specific services provided by ADAM such as training courses, knitting classes, and other technical assistance programs.
- (4) As mentioned in a previous section of this report, it would be a worthwhile strategy for ADAM to focus initially on its internal operations and its independent (type C) knitting groups as a "pilot" effort to design and implement a more systematic process for monitoring and measuring the performance of each element in the "pipeline" for marketing-production-export. As the system is "de-bugged" and begins to demonstrate positive results, the other type A and B organizations should be more receptive to cooperating in its gradual expansion and incremental implementation.
- (5) Because the focus suggested above on the continuous improvement and development of the independent (type C) knitting groups may be perceived by some type A and B organizations as a threat to their own development, ADAM should clarify its commitment to and policy for the continued support and cooperative relationships with these organizations. For example, it may be useful for ADAM to explore a mutual agreement on exclusive territories in which each organization would focus its efforts to recruit, train and manage artisan-knitters. Such an arrangement should not be designed to restrict the freedom of choice of an individual knitter to work with any particular organization. But it would seem to be in the mutual interest of all the knitting organizations to avoid duplication of effort and counter-productive competition.

In summary, the satisfactory resolution of the issues concerning the relationship of ADAM to the knitting groups will require a delicate balancing act between multiple objectives, including; organizational survival, freedom of choice and free-market competition to increase earnings for knitters, expansion of the pool of knitters, enhancement of the capability and productivity of knitters, and control of production to better respond to market demand. Arguably, the difficulty of resolving these issue may outweigh all other problems, (i.e., marketing, production, quality control, etc.) confronting the ADAM project and, therefore, deserves the most serious and open-minded consideration of all the participants.

F. ACTION PLAN/TIMEFRAMES FOR IMPLEMENTING RECOMMENDATIONS

In the context which the findings and recommendations of this evaluation were presented above, the chart on the following page presents a summary action plan and suggested timeframes for implementation of these recommendations. This action plan is intended only to provide a general framework within which the ADAM Board and executive staff must elaborate an appropriate workplan reflecting their own assessment of priorities, availability of resources, and policy preferences.

The highest priority should be assigned to engaging the two key technical experts (i.e., the marketing and production specialists) as soon as possible and, hopefully, within the six-month timeframe suggested in the action plan. Clearly there are a host of problems and complex issues to be dealt with to make the ADAM project successful, and certainly the ADAM Board and staff can continue to make incremental and significant progress until the two experts are engaged. But this evaluation strongly suggests that it is unrealistic, and basically unfair, to expect the ADAM Board and staff to achieve the goals and objectives of the project without critical professional marketing and technical expertise which the project was designed to provide.

It should be emphasized again at this point that, in the context of the experience with similar AID - sponsored craft export projects and in spite of all the problems contributed by the short-comings of the outside technical assistance which the project has received to date, the ADAM Board and staff should be credited with high marks for their performance to date. But there are limits to how far a project can get with just hard work, dedication and material resources.

Assuming the two key experts can be brought on board within six months, in the interim ADAM should focus on the following five areas to stabilize and strengthen the project, and prepare itself to take full advantage of the experts when they are made available.

- (1) Clarify and re-enforce the commitment of the ADAM project to its basic goals and objectives by developing and implementing a system for monitoring and measuring progress toward achievement of these specified goals and objectives.
- (2) Recognize the consistent problems which have been experienced in meeting sales and production targets and focus efforts during the next six months on producing quality products for an existing and gradually expanding group of ADAM clients. As soon as the marketing and production experts are available, develop a more ambitious short-term (6-18 months) marketing strategy based on a realistic assessments of ADAM's production capability to respond to potential market demand. After six months exposure to the ADAM project, the two experts should be prepared to assist in developing a long-term (2-5 year) marketing strategy that should carry the project to its next phase of development.
- (3) The first step toward improving the "business-like" operation of ADAM would be the development of a business plan. In addition to ADAM's internal auditor, specialized short-term assistance should be engaged to develop an operational cost-accounting system. Progress should also be made in designing and testing an incentive/bonus payment system and in applying MBO techniques to systems for production, quality control, management and administration. The two key experts could then review this progress and assist ADAM in refinement and ongoing implementation of these plans and systems.
- (4) Before becoming any further involved and committed to the various projects and plans for expansion of ADAM's project portfolio, attention should be given to reconsideration of the portfolio and specific plans for limiting the projects scope of activities in view of the recommendation for ADAM to focus its efforts and resources on its priority agenda for at least the next two years.

- (5) A policy framework should be developed to guide a process of ongoing communication and negotiation between ADAM and the participating knitting associations to define mutually agreeable, long-term relationships that will contribute to the success of the ADAM project. Applying this policy framework in a "pilot" effort with ADAM's independent knitting groups would provide a useful demonstration to support and facilitate the process of communication/negotiation between ADAM and the other knitting organizations.

SUMMARY ACTION PLAN/TIME FRAMES
(Assumes Start-Date of July 1, 1988)

	Year 1				Year 2			
Maintain Focus on Goals/Monitor Progress								
(1) Design system to monitor progress	▲							
(2) Establish baseline data and targets		▲						
(3) Implement system/review/refine		▲—————						
Apply Market-Oriented Approach								
(1) Initiate RFP or recruitment process for T.A.	▲							
(2) Identify and contract with (2) key persons		▲						
(3) Two key T.A. persons start work			▲					
(4) Prepare marketing strategy/production targets:								
(a) For months 1-6	▲							
(b) For months 6-24			▲					
(c) For long-term (3-5 years)					▲			
Operate on Business-Like Basis								
(1) Prepare business plan/spreadsheet program	▲							
(2) Apply MBO process to:								
(a) Production and quality control system		▲						
(b) Management and administration		▲						
(3) Develop cost-accounting system		▲	▲					
(4) Develop incentive/bonus payment system		▲—————						
Avoid complicating project								
(1) Prepare policy/plan to focus project priorities	▲							
(2) Spin-off retail outlets and leather production		▲▲						
Define relationship to knitters								
(1) Design implement "pilot" performance monitoring system		▲—————						
(2) Expand/apply system to other organizations		▲—————						
(3) Develop policy framework for ongoing communication/negotiation with organizations		▲—————						

LIST OF INTERVIEWS

Boston

Leona and Albert Gustaff
Matus, Inc

Tom Brush
Pavo Real

New York

John Underkoffer
Jean Robert

Robert Beaulieu
Fashion, Institute of Technology

Christine Pender
Good Connections

Washington, D.C.

Peter Whelan
Andean Imports

Phone Interviews

Tom Brush
Pavo Real

Daniel Haggerty
Claire Bonner
Pearl Maas
Rex Nickson
Canadian Executive Services Organization (CESO)

Cochabamba, Bolivia

M. Julia Lambert
Amerindia

Zacarias Coca Soria
Sumaj Inti

Simón Belmonte C.
Auditóres Belmonte Asociatos SRL

Father Geraldo
Sister Bernice
FOTRAMA

La Paz, Bolivia

Darell L. McIntyre
Michael Hacker
Salvatore Penzino

Loria and Arthur Tuck
Millma

ANNEX 2

MEMBERSHIP OF ARTISAN KNITWEAR ORGANIZATIONS

TABLE 1 : MEMBERSHIP OF ARTISAN KNITWEAR PRODUCER ORGANIZATIONS (NUMBER OF KNITTERS)

ORGANIZATION	1985		1986		1987		1/88 - 4/88	
	PROJECTED	ACTUAL	PROJECTED	ACTUAL	PROJECTED	ACTUAL	PROJECTED	ACTUAL
ALDEA S.O.S.								
AMERINDIA	700	410	840	350	1,008	552 ¹	1,310	552
ANGORAY Y ALPACA						120 ²		120
CASA FISHER	---	200		50		250		350
FOTRAMA	1,850	800	2,220	700	2,664	700	3,463	700
KAY HUASY	490	150	588	100	706	187 ³	917	187
LAS IMILLAS	50							
PIOX								
SUMAJ INTI						415 ⁴		480
OTHER ORGANIZATIONS					400		520	
TOTAL	3,090	1,560	3,708	1,200	4,778	2,224	6,210	2,389
ADAM GROUPS	N/A	N/A	N/A	200	N/A	685	N/A	1,250
GRAND TOTAL	3,090	1,560	3,708	1,400	4,778	2,909	6,210	3,639

Member of original four artisan producer organizations

- 1) includes 220 artisan knitters transfered to Amerindia by ADAM
- 2) includes 287 artisan knitters transfered to Angora y Alpaca by ADAM
- 3) includes 215 artisan knitters transfered to Kay Huasy by ADAM
- 4) includes 202 artisan knitters transfered to Sumaj Inti by ADAM

"Actual" figures represent estimates provided by ADAM

"Projected" figures provided in Project Paper pp. 48

ANNEX 3

PRODUCTION MARKETED THROUGH ADAM

TABLE 2 : TOTAL PRODUCTION MARKETED THROUGH ADAM

ORGANIZATION	1985		1986		1987		1/88 - 4/88	
	PROJECTED	ACTUAL	PROJECTED	ACTUAL	PROJECTED	ACTUAL	PROJECTED	ACTUAL
ALDEA S.O.S.								
AMERINDIA	5,292	75	10,282		39,862		26,732	
ANGORA Y ALPACA		25						
CASA FISHER								
FOTRAMA	17,982	100	33,566		70,649		105,351	
KAY HUASY	4,234	50	8,044		18,713		27,904	
LAS IMILLAS	702		1,210		2,397		3,514	
PIOX								
SUMAJ INTI								
OTHER ORGANIZATIONS	0		5,600		15,320		27,424	
TOTAL	28,210				132,835		202,721	

"Actual" figures represent estimates provided by ADAM

"Projected" figures provided in Project Paper pp. 51

ANNEX 4

TOTAL PRODUCTION OF ARTISAN KNITWEAR ORGANIZATIONS

TABLE 3 : TOTAL PRODUCTION (ESTIMATES)

ORGANIZATION	1985		1986		1987		1/88 - 4/88	
	PROJECTED	ACTUAL	PROJECTED	ACTUAL	PROJECTED	ACTUAL	PROJECTED	ACTUAL
ALDEA S.O.S.								
AMERINDIA	7,000	4,100	11,760	4,200	17,136	4,200	31,450	
ANGORAY Y ALPACA				500		1,000		
CASA FISHER		2,000		2,000		2,500		
FOIRAMA	25,000	8,000	39,960	7,000	55,944	8,400	83,117	
KAY HUASY	6,000	1,500	9,408	1,000	13,406	1,000	22,015	
IAS IMILLAS	1,200		1,560		2,016		2,820	
PIOX								
SUMAJ INTI						200		
OTHER ORGANIZATIONS	0		0		5,600		15,320	
TOTAL	39,200	15,600	62,688	14,700	94,102	17,300	153,574	
ADAM GROUPS	N/A	0	N/A	200	N/A	218	N/A	
GRAND TOTAL	39,000	15,600	62,688	14,900	94,102	17,518	153,574	

"Actual" figures represent estimates provided by ADAM

"Projected" figures provided in Project Paper pp. 50

ANNEX 5

ARTISAN KNITWEAR ORGANIZATIONS

LIST OF ASSOCIATED PRODUCER ORGANIZATIONS

Organization

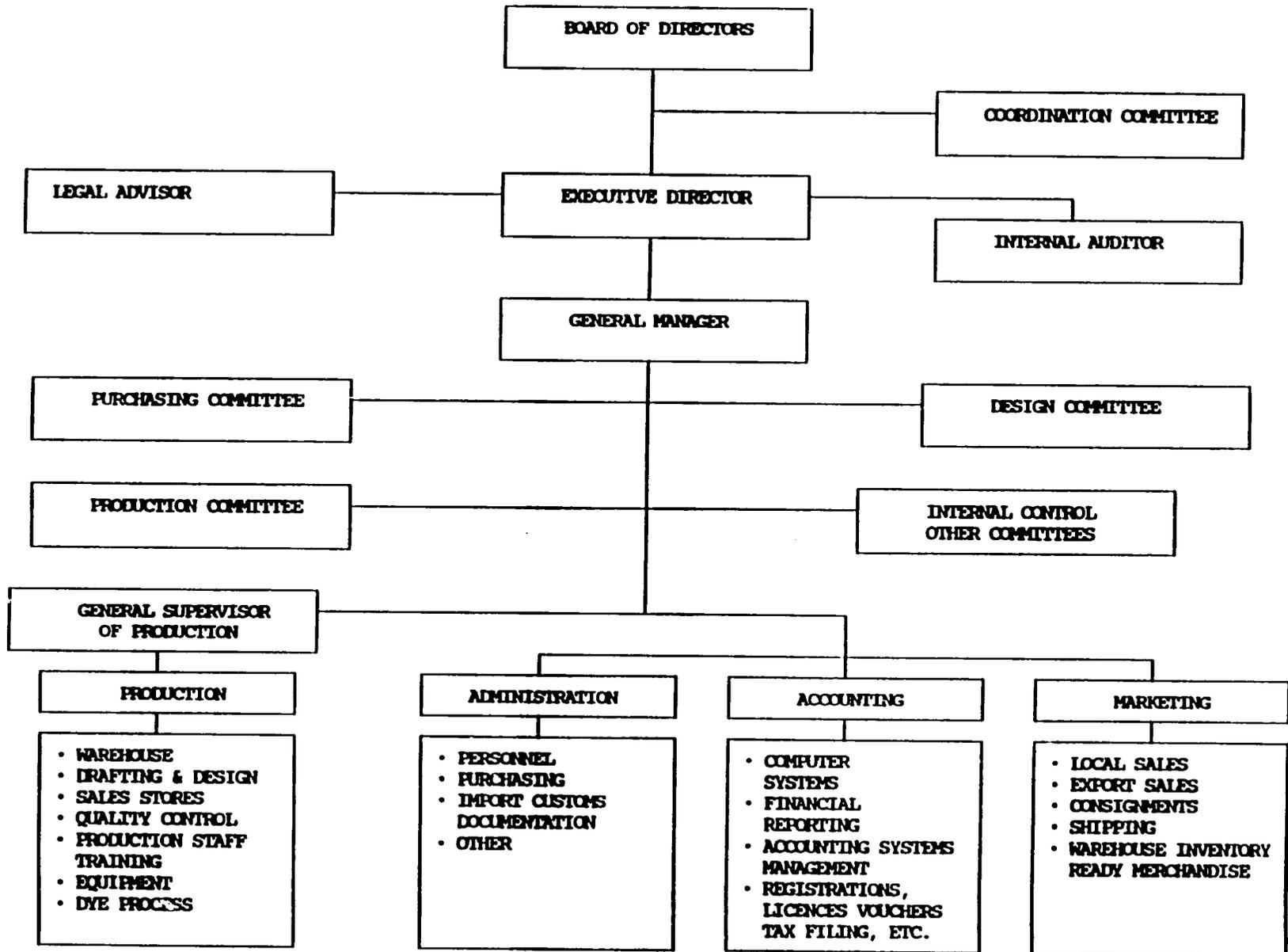
Objective

Aldea S.O.S	Social Service
Amerindia*	Social Service
Angora y Alpaca	Private Business
Casa Fisher	Private Business
FOTRAMA*	Social Service/ Religious
Kay Huasy*	Private Business
Las Immilias*	Social Service
PIOX	Private Business
Sumaj Inti	Private Business
ADAM	Non-profit Foundation

* One of original four associated producer organizations

ANNEX

ADAM ORGANIZATIONAL STRUCTURE



ANNEX

SUMMARY OF ADAM EXPORT ORDERS 1987 - APRIL 1988

COMPANY (BUYER)	COUNTRY	TOTAL AMOUNT OF ORIGINAL ORDER (UNITS)	DATE ORDER RECEIVED FROM BUYER	DATE ORDER DUE TO BUYER	DATE ACTUALLY EXPORTED	TOTAL AMOUNT EXPORTED (UNITS)		% OF ORIGINAL ORDER OF EXPORTED	% OF ACTUAL EXPORT ORDER ACCEPTABLE QUANTITY
						1987	1988		
MATUS	U.S.	3,924	26-3-87 to 22-12-87	1-8-87 to 24-11-87	3-11-87 to 17-11-87	2,908		74%	100%
MATUS	U.S.	811	29-1-88 to 18-3-88	1-4-88 to 1-7-88	12-4-88		173		
PAVO REAL	U.S.	832	28-8-87	12/87 (verbal)	11-3-87 to 7-12-87 6-1-88 to 30-3-88	351	223	42% 32%	100% 4/88 Final Dec '87 Partial 97%
PAVO REAL	U.S.	611	18-4-88	8/88					
PETER WHALEN	U.S.	1,382	12-11-82	6-2-88	3-3-87	1,239		90%	90%
MILLMA	BOLIVIA	1,398	3-12-87 to 14-10-87	As soon as possible	5-8-87 to 5-5-88	197	1,075	90%	94%
SVENOSEN	NORWAY	54	9/87	10/87	14-10-87	54		100%	100%
VANESITA	BOLIVIA	60				66		100%	100%
MISC	BOLIVIA	42				42		100%	100%
TOTAL		9,114				3,618	2,710		

ANNEX 3

RAW MATERIALS AND FINISHED PRODUCTS FLOW CHART

RAW MATERIALS AND FINISHED PRODUCTS FLOW CHART

