Garment Industry Productivity Center

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GIPC

GARMENT INDUSTRY PRODUCTIVITY CENTER

A project of USAID|Cambodia

PROJECT ANNUAL REPORT

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I. Introduction

Cambodia's industrial sector continues to be dominated by apparel manufacturing. The garment industry still supports over 10% of the population and provides 80% of export revenues. According to the Garment Manufacturers Association in Cambodia (GMAC), the industry employed over 320,000 in 2007, although the number of factories remained relatively constant at around 300. Exports grew during 2007 but at a lower rate than in prior years; without year-end numbers GMAC estimates a gain of less than 10%, respectable but well below prior years. There is some light manufacturing in other sectors, but apparel jobs remain critical to the economic stability of the country.

Despite the growth, Cambodia continues to be a fragile producer with great competitive challenges ahead. Most factories are still cut-and-assembly plants, processing imported materials with low-cost labor and minimal capital investment. Vietnam joined the World Trade Organization in January, 2007, and is now positioned to grow rapidly as a competing producer. The import safeguards (US and EU) restraining apparel exports from China will expire at the end of 2008. Competition from other regions, particularly the Caribbean and the Indian sub-continent, is also growing while Cambodia's manufacturers contend with rising wage pressures, high electricity costs, inefficient trade processes, and a short value chain. Moreover, Cambodians are perceived to lack technical and leadership skills, so expatriates continue to fill most supervisory and management roles.

The Garment Industry Productivity Center (GIPC), a project of USAID Cambodia initiated in October, 2005, has taken an integrated approach to supporting the economic stability of the industry. The project's core lies in training Cambodian supervisors and managers to understand productivity management in the garment industry, and coaching them as they improve the productivity of the factories where they work. GIPC is also a leader in broader competitiveness initiatives, drawing on the expertise of the project staff for capacity-building programs with organized labor as well as with manufacturers, and contributing to workforce development and education initiatives.

The question of sustainability, i.e., how to ensure GIPC continues to contribute manufacturing expertise and training in Cambodia after conclusion of the Project, remains unresolved, but the Center continues to gain recognition for its contributions to industrial development, and for the success of its client factories and trainees.

This is the second annual report of the Garment Industry Productivity Center and summarizes the Project's activities and accomplishments during the October 2006-2007 year.

II. Contract Objectives and Resources

The contract assigns three tasks to the Project Implementation Team:

Task 1: Creation of the Garment Industry Productivity Training Center

Task 2: Provision of consultancy and training services to the garment industry through the Garment Industry Productivity Center

Task 3: Provide technical assistance to improve the ability of garment sector firms and associations in Cambodia to formulate strategy, identify and develop products that can compete globally. Coordinate with other donors and, building on existing activities, provide a good governance vision for the productivity and prosperity of Cambodian garment and other manufacturing industries.

The funds committed to this 3-year contract are $3.4 million; at the end of the fiscal year September 30, 2007, the balance in obligated funds is $1.361 million. The project has been granted a no-cost extension to January 31, 2009.

The core Project Team consists of Chief of Party Jane O'Dell and Project Administrator Norma Simanjuntak (Nathan Associates, Inc.) and engineering experts/technical advisors Heinz Reich and Giovanni Marello (Werner International, Inc.); frequent contributors include economist Lynn Salinger (AIRD, Inc.) on workforce development, and Peter Minor (Nathan Associates, Inc.) on garment industry value chain and project monitoring and evaluation.

The permanent staff in Cambodia includes GIPC Director Mona Tep, one accounting/information specialist and one general office, and seven nationals in training as technical advisors.

III. 2006-7 Activity Summary

GIPC continued its core training and consulting activities, improving the status and income of Cambodian trainees as well as production at client factories. Workforce development and capacity-building initiatives fostered collaboration between organized labor, factories, and government, and earned credibility for the Center and its programs. The installation of a Cambodian director, and the growing skills of the technicians, position the Center for its role as Cambodia's national resource for industrial skills. As a result of a new marketing program we met the target for bringing clients to the Center, but the great challenge remains convincing foreign investors and expatriate managers to invest in their Cambodian workers, and to apply GIPC's system of management and controls consistently in the factories.

Project Achievements

- The transition from full-time management presence of the Chief of Party to operational leadership of a Cambodian Director was one of the most important activities for the 2006-2007 project year.
- The GIPC team implemented a new marketing and outreach plan that enabled the Project's engineers to initiate or expand relationships with and provide management guidance to 20 new factories during the year.
- The Project work includes both training and consulting, for which the Center receives donations to a training fund, and non-commercial activities such as workforce development; GIPC brought in nearly $40,000, doubling income compared to last year.
- To date productivity improvements achieved by the project's client factories have added over $4 million in value of labor to the Cambodian economy.
- A survey of over 100 Cambodian trainees conducted by an independent research firm found 44% of those participating in GIPC courses increased their income as a result of training, and 66% had more responsibility. Overall, 94% credited GIPC with improved job performance and satisfaction.
- A capacity-building program on the business aspects of the global garment industry developed for labor leaders with USAID partner ACILS was so well-received that participants asked to expand the training to lower levels of union leadership to improve industrial relations and facilitate collective bargaining.
- GIPC technical staff grew to 7 technician trainees, including a specialist in CAD/CAM.
- The project made important contributions to information and analysis of the industry that will support strategic planning at the business or policy level, including a Value Chain Analysis of internal production costs (also noted for collaboration with the World Bank's review of external costs), and a survey of compensation and jobs/skills in the industry.
- With GIPC sponsorship and participation, 8 factories and the Garment Manufacturers Association in Cambodia participated in a Career Forum, introducing the industry to thousands of educated young Cambodians.
- GIPC engaged with post-secondary education providers on industry needs and is developing the first course material that focuses on the garment industry. National University of Management is testing the course materials.
- The Project's demonstrated expertise in public/private sector working groups elicited invitations to participate in policy groups with the Ministry of Labor and Vocational Training (project on skills classification), and in export and trade processes with the Ministry of Commerce (trade facilitation).
- The financial review of Project operations found no significant weaknesses or oversights in administration and stewardship of funds.

IV. Core Activities

The 2006-7 Work Plan committed to 24 activities directly linked to the contract tasks; in some cases these are better defined as "areas of activity," as they are a combination of specific actions (e.g., a manufacturing value chain analysis) and groups of activities intended to advance program goals, but also to establish the Garment Industry Productivity Center as a member of the community, building relationships with other stakeholders and contributing to a strategic vision for the industry. As a result of the collaboration, and of the nature of the private sector business community, the schedule envisioned in the work plan could not always be met but solid progress was made towards all the outcomes and the incomplete tasks will continue into next year.

The revision of the USAID Operating Plan required some adjustments to ensure consistency with the newly established priorities and evaluation standards, but the core of the Project remained consistent with the newly defined objectives.

Contractor Task 1: *Establish the center as a functioning structure to deliver specialized technical training and consultancy services to the garment industry.*

2006-7 Activities:

1 (a) Standardize the process for assessing factory clients and establish the baseline data for each client.

The GIPC engineering experts retain some individual characteristics in assessing the needs of a client factory, and each factory is an individual system that presents different issues, but the assessment now includes a consistent group of indicators that are reviewed for each client, at least, to the extent possible given differences in factory information and management. With the same caveat, the assessment report has also been converted to a single format. This is a critical step in creating a consistent product for the clients, and a service that the Cambodian technicians, who will lack the 30-40 years' industry experience of the Project's technical advisors, are able to offer.

1 (b) Improve client management by creating a database to contain factory, and individual trainee data.

An Access database, developed by a small Cambodian business, was completed this year and enables the project to manage client history and to generate reports and analysis. As the number of students and factories grows easy access to historical information is growing in value.

1(c) Intensify marketing and outreach to increase the number of factories strengthened.

In addition to the outreach done by the Project team members, a local staff member developed a routine system for marketing directly to factories. The office marketing assistant helped to expand the number of factories served by the Project and grew her

own capabilities, making first-contact calls to over 75 new factories, nearly 30% of the currently active manufacturers. The resulting information has provided the Center with a pool of potential clients.

1(d) Plan the training calendar and standardize course content

GIPC has standardized materials for the three basic courses (Time and Work Study, Preparing Operator Trainers, and Effective Supervisors). In addition, a training program for human resources personnel provides them with an aptitude test to help identify high potential individuals. Materials for the 3 courses and the aptitude testing are available in three languages (English, Khmer and Chinese), reflecting the demographics of the industry in Cambodia.

Mr. Heinz Reich prepared a training plan, with calendar, but ultimately it proved more valuable as a framework for Project planning than as an actual course timetable. The plan contained general guidelines to plan courses, and was helpful in allocating resources, but courses were presented based on clients' needs and the production calendar.

1 (e) Certify capabilities of Cambodian consultant trainees (TTA's)

Expand training outside of GIPC (study tours, other courses)
Assess ability of individuals to teach specific courses
Assess ability of TTA's to provide specific guidance in factories
Present certification process to Center Advisory Committee for approval

The technicians are regularly evaluated by the consulting engineers so that gaps in technical ability can be corrected with additional practice, and the method for preparing them as instructors has been effective. The five TTA's who have more than 1 year with the Project traveled to China to learn from factory organization and production methods there, and to see current technology at one of the industry's major international machine shows.

The TTA's are also participating in outside training activities to provide some balance to the teaching of the Project experts. GIPC engaged a training specialist to observe courses and provide special coaching on presentation skills, and sent individuals to technical programs offered by GMAC. The current methods for certifying skills used by other organizations in Cambodia are not sufficiently objective, so GIPC is exploring a program with the Ministry of Labor and Vocational Training, currently in development, and with the Garment Manufacturers Association in Cambodia (GMAC). Ideally, the process will also involve qualifications accepted in other countries in the region.

Progress was made on this objective, but it was not completed because of the complexity and the number of interested stakeholders who must agree to the standards set. Work is continuing during the coming year.

1 (f) ***Acquire local leadership***

It proved challenging to find a Cambodian candidate with the skills and vision to lead the Center, but we were successful in recruiting a Director on schedule, with full time responsibility after March 1, 2007. Director Mona Tep worked closely with the COP for 6 weeks before taking over daily operations of the Center; her knowledge of the industry is growing and her strong management and public relations skills have contributed to staff development, and to establishing GIPC's role in Cambodia.

1 (g) ***Strengthen the Center Advisory Committee, increasing membership to 8***

The Director was able to attract new members, including H.E. Eng Roland, Ambassador-at-Large, but it proved difficult to draw members from the factory community. The Director has been conducting 1-on-1 meetings with members (rather than group meetings) to obtain their input on GIPC, and the industry.

1 (h) ***Develop relationships with regional training organizations***

The Project formed a good working relationship with Singapore-based TAF.tc, and renewed contact with the Hong Kong training organization, CITA. However, we are continuing to search for regional organizations with strong production expertise.

This activity will continue into the coming year, and we expect it to be an element of the planned transition to a sustainable Center.

1 (i) ***Introduce new business services based on the Gerber CAD/CAM system***

The Project staff now includes a technician trained on the CAD/CAM production of markers for use in the garment factories. While such equipment is the industry norm in developed countries, many Cambodian factories receive digitized patterns, already printed, from foreign headquarters. The factory may also receive pre-printed "markers," which are actually used in cutting, or may have to prepare them manually from the paper pattern. Even when markers are sent to the factory they often have to re-make them because of production problems. Manually produced markers are time consuming to produce, and lack the consistency possible from automated production. Moreover, even the most skilled manual markers cannot achieve the fabric utilization possible from automated production. However, a plotting system and printer cost around $50,000, well above the capital budget for the local garment makers.

GIPC trained project technicians, then introduced the service to clients in a free-trial program; 6 companies used the system during the 4th quarter and two of those agreed to use the technology on an on-going, for-fee basis. Those who have not joined the subscription service are still pleased to have this technology resource that can solve quality problems, and enable them to continue production within hours of discovering a pattern problem rather than waiting days for a new delivery, or risking quality with a manual solution.

1 (j) Update the business plan to reflect changes and lessons learned

The Chief of Party and the Director reviewed the business plan, incorporating a marketing plan which was implemented with positive results. We significantly increased the number of factory contacts and met our income goals. The original plan envisioned supporting the organization through consulting and training contracts, but the plan was adapted to reflect the reality that we will not be able to perform at the current level without finding additional funding sources and the Project team and Director began talking with donors regarding potential funding for specific activities.

The business plan will be updated again in February, 2008.

Contract Task 2: Deliver training and consulting services to improve productivity and quality, train Cambodian technicians to deliver training and consulting services to the industry.

2006-7 Activities:

2 (a) Conduct training courses, including learning assessments and feedback from trainees, that enable us to improve content and presentation and guide implementation of new skills.

The technical team, led by Mr. Reich and Mr. Marello, presented training courses in core subjects of production management and supervision and assisted factories in applying the skills learned by their personnel. Client feedback was used to adapt training to meet individual (or factory) needs. The Center's Cambodian trainer/technical advisors (TTA's) expanded their range this year to include supervisory training courses. They are also conducting some of the in-factory follow-up without engineer supervision. This is a critical activity that will continue throughout the project, but is "complete" in that the targets set for the year were met.

2 (b) Provide consulting that addresses the 10 key performance indicators identified in the monitoring and evaluation plan, and monitor results over time.

GIPC provided consulting and production management advice in 20 factories during 2006-7, employing over 20,000 workers. Many of these projects will continue into the new fiscal year. Factory monitoring has been assigned to the TTA's and is part of their deeper engagement with the clients. However, measurable productivity increases were achieved at only 2 new factories during the year, with ongoing work at 3 who are expected to show results in the first quarter of next year.

The time between first factory advice and measurable productivity improvement is unpredictable. The project team, and especially chief technical advisor Heinz Reich, places great emphasis on consistent factory contact to maintain momentum, but introducing new production methods or in-factory training still depends on the factory's business cycle. Clients postponed training and/or implementation of new production

procedures because of delivery pressures. In some factories we implemented the GIPC system and reviewed the improved results with management, but the changes lapsed when supervisors reverted to their past experience.

As a positive indicator, most factories facing production-related delays extended the implementation timetable rather than discontinuing working with GIPC. The Project Team is engaged in consulting work with most factories for a year or longer, and re-work may be required, but the initial investment is not lost.

2 (c) Explore new avenues for productivity evaluation and manufacturing consulting, including evaluation of other programs (such as ILO/Better Factories impact on productivity), technological services such as the CAD/CAM automated plotter.

The project team pursued the possibility of evaluating ILO/BFC training, with the support of both ILO and GMAC. Factories were contacted by email, by telephone, and in person, by GIPC and by GMAC. However, they declined productivity measurement. We learned that the factories do not join ILO's modular training program expecting any increase in productivity or manufacturing performance and were therefore indifferent to the impact. ILO hopes to claim productivity improvement associated with their programs, however, so has asked us to continue the offer into the coming year.

The USAID/GIPC CAD/CAM system is described in section 1. (i) above.

Interest in GIPC's knowledge-based seminars and the very positive response to a study tour of Vietnam suggest there is also a market for short educational presentations on technical, or global market-related subjects which will be developed as a product, with a small fee, next year.

Contract Task 3: ***Provide technical assistance to improve the ability of garment sector firms and associations to formulate strategy and to compete globally; coordinate with other donors and existing activities, provide good governance vision for productivity and prosperity in the garment industry and other manufacturing industries.***

3 (a) Develop and implement program to improve understanding of productivity and competitiveness among labor union leadership to foster improved understanding and communication between labor and factory management.

GIPC collaborated with USAID partner ACILS to identify capacity-building needs of the labor movement leaders in Cambodia and prepared a series of 4 training programs ranging in length from 4 hours to 2 days and covering key business issues. GIPC experts and guest speakers presented information on the international apparel buyer's decision making, the value chain of garment production, product pricing (from factory to retail price), basics of foreign investment, and methods of calculating incentive compensation. The response to the sessions was enthusiastic, and evaluations showed that participants' growing knowledge of the economics influenced their thinking about competitiveness.

The participants' "final examination" showed a significant gain in their understanding of the impact of labor disputes on competitiveness. Combined with a 4-day study tour of the industry in Vietnam, the seminar series was recognized as filling an important gap, and ILO and ACILS are working with labor leaders to roll the program out to the local union leaders.

3 (b) Add worker engagement to remediation plans.

Both Project engineering leaders and the management stressed the importance of worker engagement in productivity improvement to factory leadership. However, the factory managers were usually well aware of the importance. The Project Team did not find worker engagement to be a significant obstacle to improvement and only factories with fractious relationships with their unions seemed to consider worker buy-in an obstacle. The greater challenge proved to be maintaining management/supervisory focus.

GIPC will continue to include worker engagement as an element of change management within the factories but found that the factories are prepared to address these matters themselves. Therefore, we could not identify any particular value to articulating "best practices" but will review this subject in the survey of client response to GIPC scheduled for 2007-8 year.

3 (c) Clarify education needs and resources with stakeholders.

With the support of workforce development technical expert Lynn Salinger, GIPC presented the results of the 2006 workforce assessment to the employers, educator community, and government, and continued the collaboration with International Finance Corporation (IFC)/Mekong Private Sector Development Facility (MPDF), ILO, and other stakeholders on a strategy for workforce development and training.

Educators were cautious, explaining that students are not interested in the industry, that compensation levels are too low, and repeating the traditionally held belief that employers do not want to hire Cambodians. When presented with the results of GIPC's 2006 work force assessment, they responded positively to hearing factories contradicting that opinion and several institutions have shown interest in working with GIPC to introduce useful content into course work.

Employers provided input through the GMAC, and directly to GIPC. Most are interested in hiring educated Cambodians for administrative and technical/operations work, but prefer to employ them after some training. This insight helped to guide GIPC's workforce development strategy.

We anticipate some challenges in meeting the workforce development needs, however. Many are long term initiatives, and donor organizations convened by MPDF in September indicated minimal interest in continuing support for training and education for the garment industry. GIPC will continue to concentrate on identifying and offering programs that are self-sustaining.

3 (d) Define job skills for key garment industry positions.

The specification of jobs and skills in the industry has not been finalized. This particular activity required consensus among various parties and the nominal leadership of GMAC; GMAC's representative expressed strong interest in organizing the industry participation, to the extent of insisting on the Association as the forum but failed to bring participants to the table. We were not able to regain the momentum in the short term, but are continuing with the effort.

GIPC's project team now plans to complete the work and analysis for key positions, and present a finished proposal to stakeholder groups. A key source will be the Salary Survey of the industry, an initiative supported by USAID/GIPC and conducted by HR (Cambodia), Inc., a leading employment search and study firm in Cambodia. The report was expected in August, but (again because of difficulties with availability of factories) was not yet final by the end of September. The information needed is only delayed, however, and we expect to submit recommendations to GMAC, and to the Ministry of Labor and Vocational Training, by April, 2008. In one positive indicator of our growing recognition and influence in this area, GIPC was invited by MOLVT to collaborate on their jobs/skills/competencies classification project.

3 (e) Introduce private sector needs to educators to establish a model for dialog and interaction on training needs; engage educated youth.

3(f) Assist educators to develop curricula and teaching tools that are relevant to industry needs.

GIPC played an important role in exposing misconceptions and changing popular beliefs about education and employment in the garment industry. Prior to GIPC intervention the affected stakeholder groups (employers, potential employees, and educators) were convinced that the others were indifferent to cooperation; by asking the question, GIPC learned this was false, and has shared that message. Communication between industry and educators appears to be moving forward independently, with some employers going directly to universities to discuss their needs.

GIPC gathered a multi-stakeholder group of educators, factories, and labor leaders in October 2006 to present the workforce assessment we conducted in 2006. This was followed by a meeting with 33 educators, and representatives of the Ministries of Education and Youth Services, and of Labor and Vocational Training, in January, 2007, to discuss how the industry's needs might be met and how students might be prepared for leadership roles in the industry.

In May 2007 GIPC technical advisor and workforce development specialist Lynn Salinger presented education leaders with the outline for a course on the global garment industry. The National University of Management volunteered to pilot the course concepts and text as a special seminar for upper level business and management students beginning in the September 2007 term.

To bring employers and youth together, GIPC sponsored industry participation in an annual Career Forum attended by over 5,000 upper level students and university graduates seeking information about employment opportunities. Nine factories sent human resources personnel to the Forum, and over 1,000 applications for employment were taken. We have not been able to confirm that any hiring took place as a result, but the participating factories' response was enthusiastic; they urged GMAC to have a greater presence, more space, and to include more factories in coming years. Students also showed a positive response to industry presence, visiting the booth and attending the focus seminars where GIPC and GMAC representatives discussed jobs and skills.

3 (g) Update the World Bank's 2003 value chain analysis of the garment industry.

In 2004, World Bank published a value chain analysis of the garment industry that, while useful, concentrated on costs external to the manufacturing process. The GIPC project team concluded that the study should be updated to reflect changes in the industry cost basis, and to provide more insight into the in-factory costs. The GMAC agreed that such information would be helpful in developing competitive strategies, and in discussing policy requirements with the Royal Government of Cambodia.

We also learned from the World Bank that, while they also thought an update appropriate, they would appreciate additional information from inside the factory gates.

GIPC surveyed a small group of representative factories producing basic products (knit shirts and casual/jeans pants) to gather data on in-factory costs. The resulting analysis, performed by cost accounting expert Don Feeney of Werner International, Inc, and economist Peter Minor of Nathan Associates, Inc., is complete and will be presented to the industry and other stakeholders in early 2008. The initial findings were shared with interested donors, NGO's and labor leaders in 2007, and the reaction suggests that the work will be a useful addition to existing knowledge of the competitive position of the industry and help in the formation of national policies, and of individual business strategies. It certainly reinforces the need for productivity improvement if Cambodia is to meet the competitive challenges of the next 3 years.

3 (h) Identify attitudes and barriers to competitiveness.

3 (i) Engage the tri-partite group organized by The Asia Foundation in 2006 to develop a strategic response to industry competition.

3 (j) Integrate the results of the competitiveness survey with strategic efforts of the tri-partite group and those of other stakeholders in a working meeting facilitated by experts in private sector competitiveness.

These three activities are central to GIPC's work on the Cambodian industry's competitive strategy; conceptually, they work together to build consensus among the critical stakeholders on Cambodia's current position, and on actionable steps towards a more competitive industry. GIPC brought the parties together, shared information obtained through the value chain analysis and through contact with international

buyers, with the manufacturers, government, labor leaders, and NGO's, and facilitated the discussion about competitiveness, helping the participants arrive at actions.

Initially, the manufacturers expressed only tepid interest in resuming the "tri-partite" meetings with labor and government initiated by Asia Foundation in a USAID-supported activity during 2006. Industrial relations were contentious, with labor leaders convinced that the manufacturers were exaggerating the competitive risks and the manufacturers focused on strikes rather than the underlying issues of trust and communications. GIPC contacted ACILS, a USAID partner working with labor organizations and offered to develop capacity-building programs for the union leaders described in Section 3(a) above. GIPC also informed GMAC of the program, reassuring the manufacturers that our objective was to improve the labor leaders' understanding of the global market, and that this would benefit all parties.

With all parties reassured of GIPC's neutrality and commitment to cooperation in the industry, they also became more willing to talk with each other.

This made it possible for us to organize the 4-day study tour to Vietnam; the participants learned together how industrial relations were handled, assessed the competitive threat posed by the Vietnam industry, and talked openly about the implications of what they learned. The outcome of the trip included specific action steps each group committed to take, and agreement to continue the discussion under GIPC leadership. The trip report attached as Appendix B describes the trip, and initial outcomes, in greater detail.

3 (k) <u>Explore application of GIPC methods and training to other industries.</u>

The Ministry of Commerce expressed interest in GIPC and its work, and asked USAID about the potential for GIPC training to apply in other environments. At present Cambodia has little other manufacturing, but most of it is, as with apparel, assembly-based. GIPC's Chief of Party visited the new Export Processing Zone in Bavet (Vietnam border) to gain familiarity with trade and production in different provinces. In observing factories in the EPZ, we concluded that the bicycle assembly facility and the newly planned footwear facility could both apply basic GIPC principles. The other activity in the Zone is screw manufacturing, involving specialty machinery and minimal direct labor; it is less likely to benefit from productivity management techniques taught by GIPC. However, the Center has engaged in discussions with the Ministry of Industry, Mines and Energy regarding other productivity needs. One of our trainees observed that the skills she learned at GIPC helped her manage her home; on that basis they can certainly be applied to other industries.

IV. Performance Against Indicators/Targets

Table 1 below illustrates results against the Performance Indicators.

A. Strategic Objectives

Indicator	Target	Actual
6.2.1.a Num. of Firms Receiving USG Assistance to improve management practices	20	20
* 6.2.1.b Num. of Firms Realizing Productivity Gains	8	3
* 6.2.1.c ROI by Client Firms (Measured once/quarter)	$500,000	$3.4 MM
6.2.3 Num. of Firms Receiving USG Assistance for Improved Technology	6	6
6.2.4 Num. of Public Private Dialogues Used as a Result of USG Assistance	4	4
6.2.2 Num. of Business Associations and trade unions that are at least 50% self funded ($35,000 target FY 06/07)	Yr 1 – 0	$39,000
EG 6.3.a Num. of Persons Participating in USG Funded Workforce Development (see age desegregation detail page 9)	100	159 (128KH)
Number of men	No target	52
Number of women	No target	84
EG 6.3.b Num. of Persons completing USG funded workforce development programs (as above; data incomplete but estimate over 75)	75	136 (72 KH)
Number of men	No target	29
Number of women	No target	29
EG 6.3. Number of persons improving working status as a result of USG training (income, promotion, job satisfaction)	100	79
EG 6.3.c Num. of Workforce Development Trainings by Private Sector Partners (as above, data incomplete)	20	32
EG 6.3.e Num. of Policies/certifications/competencies adopted	1	0

Discussion of missed objectives:

While significant progress was made towards the Contract objectives, the Project fell short on 3 Strategic Objectives.

6.2.1(b) Number of factories with productivity or business management improvements

This is a USAID Cambodia target. At the end of the year, GIPC was working with three factories that had deferred work repeatedly and are expected to provide results within 3-4 months, as they have finally scheduled implementation work. We anticipate that 1-2 other factories that began work during the 2006-7 fiscal year will also yield results early in the 2007-8 year. Anticipating clients' production schedules, and the impact that will have on their adoption of new methods, is one of the greatest challenges the Project faces. However, we do anticipate achieving the result with factories in work during this year.

6.3 Number of persons improving working status as a result of USG training

In fact, over 100 individuals agreed that the Center's training improved their ability to do their jobs, and/or job satisfaction. However, the definition allowed for this indicator only includes those who were promoted or received raises after training. Some interviewed had not yet received those specific rewards and others surveyed stated that they had been promoted prior to their GIPC training, but that without the training could not have performed well. Despite missing the indicator, GIPC has achieved a significant result.

6.3 (e) Number of policies/certifications/competencies adopted

Steady progress was made towards this goal, which requires coordination with a large number of stakeholders; we were not able to complete the work during this year but expect to achieve the result during the next year.

B. Lessons Learned/Challenges

- Resistance to change, recognized as a risk in the 2007 Work Plan, continues to be a factor in our performance. The expatriate supervisory and management class in the industry is reluctant to adopt different production management methods despite the productivity improvement realized by GIPC clients. We continue to need persuasion and top level management intervention when remediation is stalled or blocked, but it causes delays and jeopardizes long term results. In successful experiences the top level administrator or owner provides the needed support and intervenes repeatedly on behalf of our work.

- GIPC's presence and visibility has triggered direct competition from other international aid programs; some have been willing to cooperate to minimize redundant programs, but other donors support parallel programs. While we welcome other activities that contribute to our objectives (i.e., a stronger private sector with good economic governance) the proliferation of competing programs does affect results and could impact sustainability plans. Through dialog we have been able to reduce some of the redundancy, and have accelerated direct marketing, such as targeted but unsolicited sales calls, to improve our visibility.

- The Center's technicians have made great progress in their knowledge of manufacturing and process controls, but (as previously reported) they have very little prior experience in manufacturing. The increase in GIPC's consulting work is affording them more in-factory time, but the types of consulting work GIPC can undertake without the Project team's consulting engineers will be limited.

- Workforce development is a multi-stakeholder initiative, but collaboration also has a risk. The other key actors have not been consistent in delivering on their contributions which has delayed, and in some cases prevented, GIPC from moving forward. However, we have succeeded in a number of activities, providing needed information and analysis which helped to inform our strategy and is now being used by other stakeholders as well. GIPC has also stimulated discussion between educators and employers, and convinced employers to use existing mechanisms, such as the Career Forum, to reach employable youth. GIPC must be able to work well with other stakeholders, but will have to structure participation so that the group activities do not become an obstacle to progress.

V. Outlook/Milestones for 2008 Project Year

The 2008 Work Plan does not include any significant new initiatives; efforts will be directed towards improving capacity of the staff, and towards a model that will be sustainable. Primary activities include:

- Continuation of training and consulting in client factories to build supervisory and management capacity, and to improve manufacturing techniques. The activity is led by engineering advisors Heinz Reich and Giovanni Marello of sub-contractor firm Werner International, Inc.

- Continued development of staff capacity to run the operation of the Center as a sustainable entity. This includes income generation and management and related business and financial operations.

- Marketing and outreach to the local business community to attract clients for the services of the Center.

- Implementing a business plan for the independent Productivity Center.

In workforce development, we will:

- Train lecturers for a general information course on the garment industry,

- Support the development of workforce entry preparedness in conjunction with vocational/technical institutions, and

- Synthesize work over the past 2 years on jobs and competencies into formats that can be used by the industry in hiring and compensation plans, and by the educational institutions in developing appropriate programs and certifications.

In addition, the Project will continue to contribute capacity building to strengthen industrial relations in Cambodia and improve the long term competitive outlook. Our goal in this year will be to train trainers from organizations such as ILO and ACILS for the ongoing work of educating labor leaders.

We also plan to convene the participants in the study tour of September 2007, including labor, factory and government representatives, to monitor progress towards the competitiveness strategies that emerged from that trip. If they continue to work on implementation of their plans we will lead a second trip in 2008 to another regional competitor or instructive example.

APPENDIX A

INTEROFFICE MEMORANDUM

TO: MEASUREMENT AND EVALUATION FILE

FROM: PETER MINOR, M&E OFFICER GIPC

SUBJECT: MID-TERM REVIEW

DATE: 9/2007

This memorandum documents an interim review of the Garment Industry Productivity Center's (GIPC) performance and a review of measurement and evaluation programs. About five days were dedicated to a variety of performance and M&E reviews. These included reviewing:

- The most recent set of M&E indicators agreed to between the GIPC management and USAID (review of indicators);
- Processes for gathering data on M&E indicators;
- Updating return on investment (ROI) calculations;
- Interviewing selected firms, GIPC consulting staff, and TTAs to identify performance bottlenecks and areas for improvement.

An important aspect of the GIPC project's M&E program has been the fact that USAID\Washington\Cambodia has chosen to undertake a complete revision of all project indicators to satisfy new requirements in Washington to maintain standardized indicators across all projects worldwide. A complete revision of performance indicators mid-stream in a project's life is unusual and presents special challenges. The environment and process by which the project indicators were revised was one in which USAID provided lists of indicators and the project identified indicators in which their project could contribute. This presented special challenges to the project staff, since USAID did not provide additional M&E funding to undertake this major revision and instead required that funding come out of existing management budgets. Since GIPC's management budget was allocated almost entirely to the full time COP, the job fell on the COP to undertake the needed revisions in collaboration with the Nathan M&E officer and USAID. The process of developing new indicators was an interactive one, where the COP consulted extensively with USAID Cambodia over a period of approximately 6 month. As a result, the M&E officer was asked to review a final set of indicators that were agreed upon largely between the COP and USAID Cambodia staff. This review was conducted during this visit

On an outcome level, GIPC activities continue to produce measurable results for the people and garment factories in Cambodia. Productivity levels in most participating factories continue to advance as is reflected in the return on investment figures provided under a separate cover. Most importantly, the Cambodian technical staff (TTAs) is now conducting their own training session, largely independent from the engineering staff. The factories continue to praise the work of the TTAs and the engineers. Earlier recommendations from the M&E officer are being effectively

carried out. These include creating standardized forms for collecting M&E data, regularly collecting M&E data from factories and the completion of a database to compile M&E data from classes and industry contacts.

Of continuing concern, the number of factories engaged in GIPC programs, and more importantly, those benefiting from advances in productivity continue to lag. This point has been made to the engineering staff several times and it was emphasized that there are fiduciary and project responsibilities to spread services beyond a limited set of factories, even if that means reduced intervention levels per factory. Engineering staff indicated reluctance by factories' managers to take on a complete program of interventions and did not feel any change in their marketing strategy was warranted. Based on interviews with factory managers, the M&E officer advised the staff to undertake a team approach to bringing new factories into the GIPC program, where there is greater support given to factory managers in informing them about the challenges and benefits of the programs—before, during and after any intervention are crucial to the maintenance and growth of GIPC activities. The project team had successfully implemented a new outreach program that is showing promising results in number of factory contacts, but new approach to converting contacts to successful improvement programs is warranted and imperative to the project outcome.

REVIEW OF INDICATORS

Due to changes in USAID management and a new emphasis on compiling comparable performance measures across all USAID projects, GIPC has been required to revise its original set of performance measurement indicators to conform to new USAID performance indicators. It is important to note that USAID did not provide additional funding for this comprehensive review and realignment of indicators—the project originally allocated 40 days to this task at start up. Therefore, the majority of this effort for realignment of performance indicators came from standing management budgets, which by necessity, required the COP to take on more active engagement in helping USAID identify new indicators that the project was fulfilling and putting in place new systems to insure that data were collected—these activities were carried out over the period since the last major review of GIPC indicators—approximately 6 months. The COP has kept the M&E officer informed of these activities and has provided opportunities for comment and changes within that process.

Changing performance measures mid-stream in a project presents conceptual and measurement challenges. For example, new indictors may require information not collected earlier. Still, the COP in cooperation with USAID defined a new set of performance indicators that closely mirror earlier measures, but in other areas, differs substantially. For example, the number of firms engaged in GIPC activities has remained a key indicator of output. Similarly, productivity enhancements and their outcomes as measured by their value to firms in the return on investment calculations (covered latter) also remain in place. In other cases, indicators have been added to begin collection of data required for the completion of USAID's annual work plans and performance indicators. For example, number of business associations (GIPC) that are self funded was added as was an indicator for the diffusion of new technology. The list of new indictors is illustrated in table 1and are in the final stage of being adopted by GIPC and USAID Cambodia. It is expected that by the next full M&E review, GIPC and USAID will have finalized a list of indicators that will be employed for the duration of the projected duration of the project. Table 1 lists the new performance indicators reviewed by the COP with the M&E officer.

Table 1. Proposed Newly Created USAID\GIPC M&E Indicators

Private Sector Productivity (4.6.2)
Number of new firms receiving USG assistance to improve management practices
Number of firms receiving USG assistance to invest in new technology
Number of public-private dialogue mechanisms utilized with USG assistance
Number of business associations and trade unions that are at least 50 percent self-funded as a result of USG assistance
Work Force Development (4.6.3)
Number of people gaining employment or more remunerative employment as a result of participation in USG-funded workforce development programs
Number of people transitioning to further education and training as a result of participation in USG activities
Number of workforce initiatives created as a result of USG funded activities
Number of improved workforce development policies drafted through USG assistance.

PROCESSES FOR GATHERING M&E DATA

Aside from new indicators, the M&E officer reviewed new systems for collecting M&E data. This was a recommended area of improvement for the GIPC project in the February 2007 (annual) review of GIPC M&E activities and indicators. In that February 2007 review, an entire week's time was required to review activity lists, progress reports, testing data and attendance sheets to fully audit and report on M&E indicators (see annual February 2007 Annual M&E Report). A database to collect information had been in development for several months but had not advanced to full functionality. At that time the M&E officer strongly recommended to the COP that pro-active systems were required to be in place, including computer databases and regularly scheduled data collection by the TTAs on standard forms etc. Many of these recommendations had been adopted in the six month period. Standard forms are now in place and are being used by TTAs to collect key productivity information, although strict adherence to monthly collection is difficult because of dependence on the factories to provide some elements. A database of students and classes, contacts, and activities had been constructed and appeared to be up to date and well maintained.

Instead of focusing on paper trails to verify GIPC activities in this mid-term review, the M&E officer decided that the task could be concluded more efficiently and productively by choosing a random set of clients listed and verifying with the companies the activities under taken as well as the validation of the measures (such as productivity, attendance and satisfaction).

UPDATING RETURN ON INVESTMENT CALCULATIONS

The COP emphasized the need to update earlier return on investment calculations provided by the M&E officer. The reasons included the need by USAID for a single comprehensive measure of the impacts and outcomes of the GIPC project. Therefore, several days were allocated to updating this analysis with new productivity data (from new firms engaged in the program) and with new data provided in the recently completed value chain analysis and company data provided by GMAC. The process of updating M&E indicators was greatly facilitated by the conducting of field interviews with clients, whereby standard data provided by the GIPC project was confirmed by senior representatives of the companies. In almost all cases, the interviews (reviewed below) revealed an almost too conservative reporting of GIPC productivity enhancements. In at least one case, the senior factory manager identified extending productivity gains throughout his factory by putting in place a regular operators training program. In another case, a company had put in place an operator training program based on GIPC training and advice that was not reported.

New return on investment calculations were provided under separate cover. In general, several programs that were projected to carry on over the entire factory, such as Gawon and its time study programs, which were rolled back, were compensated for by the success of less ambitious, but more widely implemented programs such as the operator training. In total, the return on investment increased above projected levels. The importance of this result must be underscored as it was at the February 2007 review – the potential for the project to have greatest impacts would probably arise from less ambitious and focused programs, such as operator training and general management and time study skills, rather than the ambitious, and costly, re-tooling factory lines through extended programs of time and work study. These activities represent high risk and high cost and the returns, at least as measured in the context of this project, are limited.

FIRM INTERVIEWS

Three firms were visited and senior management was interviewed in an effort to verify M&E data reported (most importantly productivity information). As a secondary objective, client managers were given the opportunity to comment on what parts of the GIPC program worked well for them and which parts did not and why. Prior interviews revealed several management interventions that improved GIPC programming, including the rapid role out of operator training. The three firms interviewed were: Interhopwell Garments (IHG); Yung Wha Industries; and Gawon. None of these companies had been interviewed earlier.

All three firms confirmed the M&E data collected by and reported by GIPC staff. In many instances, the management indicated GIPC staffs were in frequent contact with management. In fact, most managers indicated dozens of interactions with the GIPC engineers and the TTAs. Generally, the engineers received good reviews for their knowledge and skills. The major surprise in the interviews was that all managers indicated the acceptance of the TTAs as qualified staff that could assist them. This is no small step, as in many other countries, local staff (Cambodian) are often greeted with skepticism. All three managers indicated their goals to move as many Cambodian's into supervisory and management roles and to reduce the use of expatriate management. At least one manager indicated that it was important that the TTAs were viewed as competent, since it really underscored that Cambodians can do the job. This same manager also indicated that one of the major obstacles to better management was language skills, and the expatriate managers simply do not have the command of the local language. Two of the managers indicated that one major obstacle to greater participation of Cambodian's in management position was the basic education level, which greatly hinders that Cambodians in their ability to grasp advanced concepts and he suggested that

GIPC might have to simplify and adapt its training materials to adapt to this reality. They can learn, but much more slowly and with special learning assistance. Another manager underscored this challenge and indicated that their factory was now undertaking IQ testing to identify competent staff that is under educated. This same manager said that they always tried to send the most educated staff to GIPC training, but that there were limits to which they could send and that inevitably, some of the staff sent to GIPC training might not have the required basic education. This is an important point of program development that GIPC will have to begin to address if it wishes to extend its programs in the future.

A common factor among all factories restricting the impacts of many GIPC programs is the inconsistent flow of work. Many factories do not receive consistent orders throughout the year. This has a twofold impact on the productivity enhancements' effectiveness. First, staffing levels during downturns in production are difficult to reduce. All managers indicated their fear of strikes and the difficulties with labor. There is a status quo where management often continues to pay staff regardless of the level of production. Secondly, trying to increase productivity with overstaffed factories and limited order potential has the obvious difficulty of creating a new job for management e.g., what to do with surplus staff. Sending staff home with half pay is a potential option, but is not desirable, as staff will look for new employment if they are only making half a wage. These two factors greatly limit the incentive to commit to large scale productivity enhancements. It is important to note that the challenges of seasonality and overstaffing were problematic for large and small scale operators alike.

APPENDIX B

TRIP REPORT

VIETNAM STUDY TOUR: INDUSTRY COMPARISON AND POTENTIAL

September 18-21, 2007

The Garment Industry Productivity Center (GIPC), in collaboration with the Garment Manufacturers Association in Cambodia (GMAC), led a tour of factory managers, labor leaders, and government officials to Ho Chi Min City and Hanoi to visit garment producers and officials. The trip had two primary purposes: first, to familiarize the Cambodian stakeholders with Vietnam's competitive potential, and second, to provide opportunities for dialog among the Cambodian participants.

Participants: the industry the participants were sponsored by GIPC and those representing government authorities were sponsored by GMAC. The final list was as follows:

Industry
Mr. Roger Tan, Managing Director, ThaiPore Garments (SG)
Mrs. Por Phin Van, General Manager, PPS Garments (KH)
Mr. Chris Yin, Special Consultant, Nan Kuang Garments (TW)
Mr. Qiang Chun, Managing Director, Su Tong Fang (CH)
Mr. Albert Tan, Managing Director, Suntex Garments (SG)
Mr. Larry Kao, Pirincipal, MedTex/Manhattan Textiles (MY/KH)
Mr. Van Sou Ieng, Chairman, GMAC

Labor
Mr. Ath Thorn, President, CCAWDU
Mrs. Sam Srey Mom, Vice President, FTUWKC
Mr. Som Aun, President, CLUF
Mrs. Morm Nhim, President, NIFTUC
Mr. Vong Sovann, President, CWLFU
Mrs. Tep Kimvannary, VicePresident of CFITU and President of CWMO

Government
H.E. Eng Roland, Ambassador at Large
H.E. Seng Sakda, General Director, Dept. Labor, MOLVT
Mr. Sok Sopheak, Deputy Director General, MOC (HCMC only)
Mr. Mean Sophea, Director, Trade Preferences, MOC
Mr. Chea Hak, Chief of Export Office, Customs
Mr. Yea Bunna, Director, National Productivity Center, MIME
Mrs. Nong Kanika, representing Educational Vocational Training, MOLVT
Mr. Tan Bunna, CDC, Director for Special Economic Industrial Zone

Other participants included Jane O'Dell and Mona Tep, Chief of Party and Director of GIPC, Mr. Ly Tek Heng and Buth Bunroath of GMAC, and Mr. Yim Serey Vathanak of ACILS who assisted with program management and coordination.

Program

Summary

The group spent over 10 hours each day in travel and meetings, and the discussion at meals was generally about what they saw and heard that day. During the 3.5 days of the tour they visited 4 factories and met with the Vice Minister for Industry and Trade, and held two workshops. An opening workshop and a closing workshop provided basic information, and engaged participants in considering action steps based on what they had learned, to apply in Cambodia.

The day-to-day schedule is as follows:

Tuesday, September 18 (Travel to Ho Chi Minh City, arrived hotel 1:30 pm)
:3:00-5:30. Introduction to Vietnam Business Mr. Albert Tan of Ocean Sky, Singapore investor in Cambodia and Vietnam, informed participants about geography, business environment, and comparing experience in Vietnam with that in Cambodia.
Format: presentation and discussion

Wednesday, September 19
9:30-12:00 Thanh Cong Garment Factory
Vertical production company (5500 employees) described its business operations, responded to questions from the group, gave tour of their production.

2:00-6:00 Phuong Dong Garment Factory
Producer of cut-and-sewn knit and woven garments (4,100 employees) described its business operations and provided tour of production facilities.

Thursday, September 20 (Travel to Hanoi, arrived at hotel 11:30 AM)
2:00-5:30 PM Garco 10 Garment Factory
Producer of shirts, business suits, jackets and pants (8500 employees in 13 factories) explained their business and labor relations environment, then gave factory tour that incorporated a variety of their different products.

Friday, September 21
9:00-11:00 Vice Minister of Industry and Trade, HE Bui Xuau Khu, Deputy Director General of Dept Consumption, Mr. Bui Truong Thang, Vice Chairman of Vitas, Mr. Le Van Dao, General Director of Vinatex, Mr. Vu Duc Giang, Director of External Affairs Dept., Mr. Pham Gia Hung
The third Secretary Consular to Vietnam has accompanied the delegation to the meeting. The Vice Minister gave an industry overview and discussed Vietnam's challenges to industrial growth, investment incentives, and spoke of encouraging investment in Cambodia.

11:00-1:30 Garment Factory Hanoi May 19 Textile Group and Joint Venture Company
Producer of pants, jeans, jackets, skirts, shorts (3000 workers, 1000 in facility visited). Relocated to Vietnam from Cambodia in 7 years ago because of problems with the level of industry development at the time. CMT and finishing operations observed.

3:00-6:30 Workshop
Participants discussed experience, created action steps. GIPC agreed to gather the participants again in January to assess objectives and their expected impact on competitiveness.

Key Learnings

Vietnam Business Environment

The Vietnamese government takes an active role in attracting investment, and in planning development. The garment industry is the largest employer in Vietnam (over 1 million) and the second largest source of export revenues ($6 billion in 2006), but is recognized as a low value industry in terms of value added and as a contributor (about 30%) to the state budget. The government continues to court investment because of the employment factor, but has a clear strategy for the industry that includes pursuing value-added investment and promoting development further from the urban centers of Ho Chi Min City (HCMC) and Hanoi. The goals are to redirect employment (labor shortages are a challenge in the cities), but also to move environmentally degrading elements of production out of the urban areas.

There is still a combination of state-owned and private enterprises, with over 2,000 garment factories and 550 members in the garment industry association. Only 30% of the industry is foreign investment. Investors are given a tax holiday of 3 years, then a 50% reduction for a further 2 years. There is a 10-year forgiveness of land rent for factories and industrial parks, and 10 more years at 50% of normal rent.

Vertical development is a priority. The industry produces some cotton from local plantations, and is currently able to generate a small amount of synthetic fibers (800 square meter equivalents, and targeting 1 million meters by 2015). However, they stressed that Vietnam is not dependent on the garment industry and is diversifying into steel, televisions and electronics, plastics, and chemicals.

Industrial parks (approximately 200 hectares) attract new investment by offering all necessary services in one location: waste treatment plants, power transformers, and the spinning, weaving, accessories production, dyeing, sewing, and laundry facilities, even housing. Generating their own power, the industrial parks typically charge 4-7 cents/KWH. In addition, they mirror the type of import-export facilities found in Special Economic Zones in Cambodia with all government agencies represented.

The Vice Minister reported that 60% of Vietnam's workers are under 35 years old. The country has 2 colleges and 1 vocational school teaching industry-related skills, but cannot supply enough skilled labor and they are looking for ways to prepare more students for the workforce. The government allocates $30-70 per worker for training. He also indicated that strengthening their fashion institute to add design capability was an important goal, and an interest in manufacturing equipment and spare parts for the industry.

Factory Organization

On average, factories are somewhat smaller than in Cambodia, with fewer than 1,000 workers. Factory management indicated the 700-800 size factory was easier to manage

in the current environment of smaller buyer orders and faster production changes, and that it also made recruiting easier. Therefore, even the factories with 4-5,000 employees were segregated into different operations. (Garco 10, with 8,500 employees, had 13 factories.) The largest garment maker, Vinatex, has 120,000 employees and began as a state enterprise but will be fully equitized in 2008.

Most factories were importers of materials. Vietnam currently produces only 30-40% of its raw materials but has plans for upland cotton plantations, including organic cotton, to expand production. They have also attracted foreign investment into the mill sector.

Factory Thanh Cong, the most vertical in its operations, does most of its own spinning, dyeing, weaving, knitting, and sewing using imported fiber (cotton from U.S., India, China and Mexico, synthetic from Hong Kong, Singapore, and Indonesia). While all the factories were urban, they were already planning for the future in which the government will require industrial activities (spinning, weaving, dyeing, washing) to leave the city.

Thanh Cong has a clear strategy for diversification. Recognizing the limitations of the garment industry as an income generator, they are developing an industrial park 16 km outside the city. The park will serve their production needs, and include other factories, residential and commercial activities. They are a distributor of equipment and parts.

Two factories, Thanh Cong and Phuong Dong, confirmed that buyers are looking for lower prices, but both also said that they know their bottom line and have been able to tell buyers to find another factory. They appeared to have clear business strategies, including plans for improving training and technology and ensuring delivery.

Labor

The minimum wage varies between $45-55/month (converted from dong), depending on city or provincial location, but it was interesting that several of the factories did not appear to know the minimum wage. Market rates in HCMC and Hanoi are higher, and the factories visited stated they pay $100-130 per month, on average, based on an 8-hour day, and including performance and incentive compensation.

None of the factories indicated that they used a fixed policy for salary increases. The usual systems of rewarding performance and reliability/seniority, and productivity incentives are all in practice. The incentive pay is set by the factory, and is based on standard minute calculations that are made by their engineers. (Note: the method described corresponds with the method recommended by GIPC engineer advisors.)

Employees are contracted on a probationary basis for one month (or two for a technician). Beyond that contracts are annual, and may be renewed annually or may be converted to longer term employment. If a contract employee is terminated the factory will pay off the contract; other employees receive 1 month severance.

In Vietnam the worker pays 1% health and 5% social security, with the factory contributing 5% to health insurance and 12% to social security, on the base wage.

There is only one union in each factory. While the workers are free to join the union, they are not empowered to create new unions individually (beyond that the method for creating a new union was not discussed). The representatives we met with had their

positions by election: each sewing line elects a representative who votes on the factory union representative. The union representatives pursue salary and contract benefits, and undertake dispute resolution for the workers.

Striking is rarely used in dispute resolution; none of the factories we visited had experienced a strike in as many as 60 years of operations. When a dispute arises the union representative investigates first. If (s)he cannot resolve there is a hearing, one day with labor and one day with management. A panel comprised of labor, management and government is available for arbitration and if a settlement cannot be reached there is also a labor court. When a dispute arises in an industrial park, the park management participates in the effort to resolve the problem.

The management and labor representatives, and the Vice Minister, all indicated that resolving the problem fairly is a priority. One factory said the union rep's role is to help avoid confrontation. They shared the opinion that strikes that occur only in factories where foreign management fails to handle a situation in a culturally sensitive way.

The factory managers and union representatives seemed surprised at the questions about disputes and problems. They credited collective bargaining, the workers' ability to read and understand the contract, mutual understanding (it may be significant that the industry is operated primarily by Vietnamese), and a spirit of fairness with a positive industrial relations climate.

There is no mandated compliance policy in Vietnam. Factories meet the standards that are set by their customers and comply with the labor law. Some of the factories we visited are SA 8000 certified against child labor and slave labor.

Productivity

Productivity observed by the group was 30-50% higher than in Cambodia. This can be attributed to a variety of differences: Vietnam has 10 paid holidays per year, to Cambodia's 23. The workers are given 12 days annual leave, and gain 1 additional day for each year of service. Cambodian factories give over 15 vacation days.

Workers observed in the factory had a high level of concentration. Even when members of the group lifted garment from their work table or came very close with cameras they did not generally look up. Training is important, and technical planning involving industrial engineering staff was mentioned by several of the factories. Union reps stated that workers seek training, seeing it as a means of improving their income.

Factories had invested in higher technology than usually found in Cambodia. A jeans factory using automated pocketing machines claimed a daily output of over 25 garments per worker per 8 hour day, where Cambodia averages around 13 (often in 10 hours). The same ratios were found in producing dress shirts; in producing knit shirts the Vietnam output was close to double and in all cases based on an 8 hour day in Vietnam, and a 10 hour day in Cambodia.

We observed that in some factories' targets were posted for each line, and lighted numbers tracked progress towards the goal. The Cambodian union leaders noted that is counter to ILO regulations since it might cause workers to feel stressed.

Trade and Other Considerations

In response to questions from the Cambodia delegation, factory management reported the following:

- Export clearance is conducted at the port of export, not the factory
- Certificate of origin takes 2 days to get, costs $6
- Imported materials take 1 day to receive, cost/container approx $200 (Cambodia $750)

Some concern was expressed regarding the US anti-dumping monitoring regime and one company has already retained a law firm, but neither the government nor the private sector regarded this as an insurmountable problem.

Participant Response

The participant evaluations will be summarized and submitted to USAID separately from this trip report (extensive translation and collation is required). However, during the workshop each group was asked to develop action points, and agreed to meet in January to see how they are progressing.

First, we prioritized concerns. Participants were asked to list the most significant issues and ideas they had encountered. We collated them to determine which they felt were the most significant subjects of work the group should consider. Industrial relations was the subject of greatest concern to all participants. Productivity was second, and Training and Trade and Investment were third.

Participants then broke into groups according to their affiliation: labor, factory management, and government. They were tasked with identifying 3 actions they could take to begin addressing the competitive problems or opportunities facing Cambodia. We stressed that the goal was to develop practical steps each group could take, and would commit to implementing. The groups then came together to present and discuss their action steps.

Labor Action Points

1. Stipulated the necessity for transparent piece rates, and that there must be agreement between labor and management before the workers are assigned to a job; during the group discussion they acknowledged that this was not something they were in a position to implement themselves, and withdrew it except for the need to understand methods for determining incentive compensation;
2. Obtain more training on labor law, prakas, and regulations; training on industrial relations and economics; training on collective bargaining; training on the global economic environment of the industry;
3. Teach union leaders at the next levels down about international competitiveness, labor law, and to try to resolve problems through negotiation when possible.

Factory Managers

1. To improve the cooperative environment by meeting with labor organization representatives, at the association level, on a quarterly basis;

2. To improve communication by directing factories to implement a regular meeting with union leadership (weekly, bi-weekly, monthly);
3. To pay for worker time on productivity training and encourage personal development.

Government

1. They would like to follow the example seen in Vietnam and form a tripartite committee (government, union and private sector) to discuss and update on issues so they can assist in resolving problems without conflict;
2. To pursue “most representative union” based collective bargaining;
3. To train government in labor law so they can assist in resolving disputes, creating a multi-party resolution process when labor disputes arise.

NEXT STEPS

The trip may have been successful in stimulating the action orientation desired and we want to help maintain momentum.

1. GIPC will issue a trip report to the participants, in English and Khmer, by October 30, 2007.
2. GIPC will gather the participants before November 15 to review action steps, possibly segregated by affiliation, to ensure open discussion;
3. In January, 2008, GIPC will bring the group together to see how well they have done at initiating their action steps. That will also be an opportunity to re-engage the union leadership, in particular, in considerations of competitiveness.
4. If progress is being made, GIPC will consider possible destinations for a 2008 trip.