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# CAMBODIA SKILLS DEVELOPMENT CENTER Final Report



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# CAMBODIA SKILLS DEVELOPMENT CENTER

## Final Report

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# ACRONYMS AND ABBREVIATIONS

AFD	Agence Française de Développement
AFTEX	Asian Federation of Textile Industries
CAMFEBA	Cambodian Federation of Employers and Business Associations
CGTC	Cambodia Garment Training Center
COP	Chief of Party
CASDEC	Cambodia Skills Development Center
GIPC	Garment Industry Productivity Center
GMAC	Garment Manufacturers Association in Cambodia
HRI	Human Resources (Cambodia), Inc.
ILO	International Labor Organization
JICA	Japan International Cooperation Agency
MOC	Ministry of Commerce
MOLVT	Ministry of Labor and Vocational Training
MIME	Ministry of Industry, Mines and Energy
NGO	Nongovernmental organization
NGTI	National Garment Training Institute
UNDP	United Nations Development Program



# EXECUTIVE SUMMARY

USAID Cambodia agreed to continue funding the Garment Industry Productivity Center (GIPC) after the GIPC project closed. Funding for two years, February 1, 2009, to January 31, 2011, was provided under the Micro, Small, and Medium Enterprise/Business Enabling Environment (MSME2) project implemented by the DAI/Nathan Group. GIPC registered the Cambodian nongovernmental organization Cambodia Skills Development Center (CASDEC) to continue the training and consulting services that it had been providing to the garment industry.

The purpose of extending funding was to help CASDEC become sustainable; that objective is reflected in the MSME2 contract and the subcontract between CASDEC and Nathan Associates Inc. Metrics covered market growth (in the garment industry and expansion into new sectors), new products, and building capital reserves for future need. GIPC had measured economic impact and contributions to good governance; CASDEC was encouraged to remain active in the community but focus on income.

CASDEC offered training and consulting to improve productivity and quality. A core group of 8 to 10 technicians trained by international manufacturing experts under GIPC (training that continued at a lower level at CASDEC) taught Cambodian workers time and motion study, production management and controls, and specific skills such as industrial engineering and production supervision. Under the leadership of Executive Director Mona Tep and the oversight of a Cambodian board of directors, CASDEC added pattern making, a three-month program to provide management interns to garment factories, and production management services adapted to the needs of small boutiques, artisanal producers, and other industries (especially the footwear industry) to its service package.

The adjustment from a donor project to an independent organization, developing business-oriented accounting and client care required some investment. Under the subcontract CASDEC had a funding ceiling of \$400,000 for the two years and was required to contribute its own earnings (\$4,000 per month in year 1 and \$4,500 per month in year 2) for operations. Income above the required contribution was saved for future capital needs.

CASDEC achieved double-digit growth in income each year and increased its client base from 46 firms to 93. During the worst of the economic crisis CASDEC clients were able to expand. One client hired over 1,000 additional workers and increased the average wage in the factory from \$70 per month to over \$100 per month. Moreover, over 70 percent of individuals trained at CASDEC reported income and professional gains related to the training. Despite this progress, the demand market for training that CASDEC hoped to create failed, on both the firm and individual levels.

It became clear CASDEC would not be able to support its operations, but its results attracted a private sector partner, a human resources consulting and training organization with a proposal for a for-profit training institute to serve manufacturing and general business clients. The new institute is well-positioned and financed, with every potential for success. But even if CASDEC had been forced to close its doors, the 700 trained Cambodians, factory managers committed to better methods, and skilled technicians trained with USAID support would have continued to contribute to industrial capacity and rising incomes in the industry.

# 1. INTRODUCTION

## BACKGROUND

The Cambodia Skills Development Center (CASDEC) is a Cambodian nongovernmental organization registered in November 2008 in one of the closing activities of the USAID Cambodia Garment Industry Productivity Center (GIPC) project, which was ending after three years.

GIPC was USAID Cambodia's response to the widespread anticipation of economic disaster in developing countries dependent on the garment industry and facing market disruption after the end of textile quotas in 2005. Cambodia relied on garment production for over 80 percent of exports, and the industry represented an important employment option for a workforce growing by over 300,000 people each year. It is particularly important as an employer of young women, many with little education and few options. The estimates of the numbers employed by the industry ranged from a low of approximately 270,000 in 2005 (and during the worst of the economic crisis in 2009), to over 350,000 at its peak in 2008.

GIPC's primary objective was to improve the competitiveness of Cambodia's garment industry by raising productivity and creating a sustainable center for training and workforce development. CASDEC was organized to continue the training and production consulting of GIPC, but as a Cambodian entity.

GIPC's strategy had two core elements: (1) the development of technical capacity and management skills in the local staff and (2) marketing its services to provide the income to sustain operations. The framework for CASDEC emerged from decisions made during the GIPC project:

- The GIPC was granted a four-month, no-cost extension to January 31, 2009; this ensured fully supported operations for an extra quarter—reassuring for the Cambodian staff, although awkward from a contracting perspective because the project no longer aligned with the U.S. government fiscal year.
- USAID noted that GIPC's technical results, including earnings and market penetration, were impressive but fell short of the income needed to sustain operations. The project team had introduced a new training concept, *developed local expertise*, and had growing acceptance from the industry, but income was only about 30 percent of expenses, and project consultants still participated in both technical and administrative functions. CASDEC received partial support for two additional years under a subcontract of the Micro, Small, and Medium

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*CASDEC and GIPC were foresighted; the industry faced a number of problems and did not focus on training, but now has come to see the need to build the human resources skills.*

Van Sou Ieng, Chairman, GMAC and Cambodian Federation of Employers and Business Associations

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Enterprise/Business Enabling Environment (MSME2) project beginning February 1, 2009.

- The GIPC project team and staff researched options for legal organization and registered CASDEC as a nongovernmental organization, responsible to a Cambodian board of directors, under the operational leadership of the director, who had managed GIPC operations since 2007.

These actions kept the trained team together and reassured clients of the confidence of USAID, the board members, and other stakeholders in the value of the services and the direction of the organization.

## PROJECT MANAGEMENT

### Funding

The partnership of DAI and Nathan Associates Inc. was awarded the MSME2 contract MFA 1000560-08 MFA-01 under SEGIR GBTI II; a \$20 million, five-year value chain development and business-enabling environment effort, MSME2 included a \$399,721 (ceiling) subcontract to CASDEC for the period February 1, 2009–January 31, 2011.

The DAI/Nathan agreement assigned primary responsibility for MSME2 to DAI, with Nathan Associates administering, among other tasks, the CASDEC subcontract. The time-and-materials subcontract allocated \$179,518 in workdays and \$220,203 in other direct costs, subject to FAR 52.216-7 and 52.232-7. The subcontract was modified once to realign funds.

The Nathan Associates subcontract ended on schedule January 31, 2011, with a balance of approximately \$122,000 in level of effort. Because the MSME2 contract is ongoing, the chief of party (COP) agreed to allow CASDEC to apply for the balance under normal procurement and contracting rules until exhausted, or September 30, 2011.

The services developed under GIPC and continued by CASDEC had significant economic value, and from the beginning were offered on a fee-for-service basis. GIPC had generated over \$90,000, paid to a training fund of the Garment Manufacturers Association in Cambodia (GMAC). GMAC used some of the funds for activities approved by GIPC, and when CASDEC was formed, GMAC donated the balance of the funds (approximately \$70,000) to the new organization.

CASDEC's subcontract required CASDEC to cover at least part of operating costs: \$4,000 per month in 2009 and \$4,500 in the second year (approximately 25 percent of its operating costs). Earnings above the mandated contribution level were placed in interest-bearing vehicles (with the donation received from GMAC) to build a capital reserve.

### Staffing

CASDEC conducted business operations and services with Cambodian staff trained by the GIPC project. USAID's support allowed the new entity to draw on expatriate advisers to improve technical and administrative capacity.

The executive director, Mona Tep, was designated key personnel in the subcontract. Consulting advisers included

- Giovanni Marelo, industrial engineer from Werner International (Nathan Associates' subcontractor);
- Norma Simanjuntak, Nathan Associates consultant and project administrator under GIPC;
- Jane O'Dell, Nathan Associates consultant and former COP of GIPC; and
- Peter Dodge, industrial engineering expert in footwear production.

Rodrigo Soto was Nathan Associates project manager for most of the subcontract period and received support from Nathan Associates administrative staff. Mr. Soto also provided guidance on business structure and resource mobilization. With the exceptions of Mr. Dodge and Mr. Soto, all the consultants were familiar with the Cambodian business environment, industry organization and culture, and the capabilities and development needs of the staff. This allowed them to focus on the greatest needs of the fledgling NGO.

## Organization and Governance

Before registering CASDEC, the GIPC project team researched potential organizational forms and explored the possibility of an alliance<sup>1</sup> with a private sector partner, educational institution, or government agency, but the timing was not right for the most appropriate partners. CASDEC would be a recipient of USAID funds and the inventory transfer from GIPC and needed to facilitate the donation from GMAC; after obtaining legal advice and conferring with stakeholders and USAID, the project team concluded that it would be best for CASDEC to retain nonprofit status, and CASDEC was registered as a Cambodian NGO. Primary responsibility for oversight and governance was assigned to a board of directors consisting, by law, of a majority of Cambodians.

The seven board members (up to 11 members are allowed by the articles of association) include garment industry managers, government representatives from the Ministry of Labor and Vocational Training (MOLVT) and from trade and international affairs, and business community leaders with a diversity of experience. It is a measure of the interest and commitment of the board that all agreed to serve *pro bono*, although many Cambodian NGOs compensate board members.

The executive director is accountable for operations and strategy and serves at the direction of the board but also participates fully in board meetings and votes on most issues.

The board had minimal contact with USAID and the DAI/Nathan implementing partners. The subcontract assigned responsibility for strategy and disbursement of funds to the executive director, who reported to Nathan Associates on contract matters and consulted with Nathan Associates on organizational development and activities. She also reported to the MSME2 project team for activities involving USAID funds, maintaining regular contact with the COP and his designees for communications and reports required by USAID.

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<sup>1</sup> Readers interested in more information on the search for alliances and the industry environment are directed to the Final Report of the Garment Industry Productivity Center on the Nathan Associates and USAID websites.

CASDEC's executive director was, therefore, accountable to the board, and to both members of the contractor team. The multiplicity of accountability was confusing and burdensome at times, but despite the potential for miscommunication, remarkably few problems arose among the parties. The executive director was diligent in communicating with both partners, and the professionalism and mutual respect of DAI and Nathan Associates, as well as regular communication among home office and project staff, ensured that differences were resolved quickly and without debate.

## 2. PROGRAM OBJECTIVES

CASDEC's objective was to achieve sustainability. Annual work plans incorporated metrics for market penetration and income growth, as well as tracking delivery of services and desegregating clients to understand how individuals and enterprises were benefiting from CASDEC services.

### SUBCONTRACT REQUIREMENTS

Nathan Associates' scope of work and the CASDEC subcontract had the following five tasks:

1. *Nathan*: Manage the tasks and activities of CASDEC, provide work plans, reports, and other communications as requested by the COP, and ensure that the work plan objectives are met  
*CASDEC*: Timely preparation and submission of all work plans, reports and information requirements and communications, with progress reports on objectives
2. *Nathan*: Build capital in the reserve fund (that is, earnings that exceeded the \$4,000 per month CASDEC contributed to its own expenses) to support the viability of the organization after funding ceased  
*CASDEC*: Grow reserves to over \$75,000 by January 2009, with a target of \$150,000 by end of contract (annual revenue targets were set in work plans)
3. *Nathan*: Expand the client base, using current clients, contacts with the government of Cambodia, buyers and service providers with links to the industry, and other stakeholders to reach new customers  
*CASDEC*: build relationships with stakeholders and market services to the Cambodian industry to expand the client base to 100 enterprises;
4. *Nathan*: Expand the portfolio of services offered, growing the capacity of the technical team and creating new revenue sources  
*CASDEC*: expand the portfolio of services to increase opportunities to capture new revenue, and continue development of the technical staff to deliver services;
5. *Nathan*: Tap new revenue sources, developing linkages to partners who can help CASDEC expand the market for its services

### COMMUNITY AND SOCIAL ENGAGEMENT

The executive director's strategic engagement with stakeholders and participation in activities and events showcased CASDEC's capabilities and generated good will and greater visibility in the industry, key ministries, and multilateral donors and stakeholders that occasionally commissioned work from the organization. From a sustainability perspective, these activities contributed to marketing and public relations and sometimes introduced CASDEC to new clients and markets.

Activities or outcomes that link social contributions with strengthening the business case of CASDEC will be discussed in Achievements, p. 9

## BUSINESS PLAN AND OBJECTIVES

CASDEC's articles of operation and the USAID subcontract both called for a business plan to define operating strategy and expectations. A plan was drafted in 2009 incorporating milestones for income and client development that were aligned with the USAID subcontract targets. No major revision was undertaken in 2010, pending implementation of a plan to ally CASDEC with a business partner (discussed later in this report).

The organizational mission was to "become the leading provider of skills training and continuous development aligned with employer needs, improving the employability and income of workers and workforce entrants, and contributing to national competitiveness." The operating objectives were to

- Position the CASDEC brand as the go-to source for training in the garment industry;
- Increase earnings to a level equal to operating expenses, with the exception of executive salaries and external consultants (whose costs had been covered by USAID funds), and subject to specific annual targets for 2009 and 2010
- Expand the market for services to other labor-intensive sectors
- Build administrative capacity to manage the business, with a milestone of producing accurate and informative accounting reporting for business tracking by mid-2009 (to replace USAID contract management systems
- Build the capacity of technical staff to solve problems and introduce productivity management principles into other industries.

The CASDEC executive director and project team made significant progress in achieving the business objectives but financial sustainability remained out of reach. Income gains were impressive, especially when the economic crisis in 2008 and 2009 is taken into consideration, but although earnings increased from \$49,000 in 2008 to \$86,000 in 2010 (actually, a 16-month period), the \$200,000 annual operating budget continued to exceed the most optimistic projections for 2011.

CASDEC also gained a commanding position in the market through sales and public relations efforts led by the executive director. The business community, government, and stakeholders began to include training and productivity as policy objectives, and the executive director was a regular participant in public discussions on garment industry needs, keeping CASDEC (and the GIPC brand, which remained familiar) visible. The board chair and executive director also involved CASDEC in regional activities, including the development of competency standards undertaken for the ASEAN Competitiveness Enhancement project.

Competition also slowed. A national garment training institute (NGTI), planned by GMAC with the assistance of the French aid organization Agence Française de Développement (AFD) was

announced in 2008<sup>2</sup> but by 2011 still had not moved beyond planning stages. Other organizations, such as the ILO, commissioned CASDEC to deliver technical training services.

New products (pattern making, production management) were created to enter new markets. The technical staff learned new skills and grew increasingly secure in their ability to improve client factories, and to apply production principles in new sectors.

Administrative capacity grew slowly, however. The business office created a general accounting system, but much of the reporting still reflected USAID contracting requirements and activities tracking, while information to support business activities such as cash flow planning, accounts receivable, time and cost information on client contracts, and even client after-care lagged.

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<sup>2</sup> The earlier GMAC training effort, the Cambodia Garment Training Center (CGTC) supported with Japanese aid had discontinued most of its activities in 2009.



# 3. ACHIEVEMENTS

CASDEC’s technical results validate the vision of USAID and the original project team and illustrate the commitment of the executive director and the staff.

Some targets were missed. During 2009 the global apparel market shrank an estimated 20 percent, and Cambodia’s garment industry was seriously affected. The number of active factories shrank from over 350 to closer to 250,<sup>3</sup> and the ILO, GMAC, and the MOLVT estimated that as many as 60,000 jobs were lost. Factories had little need for improving labor productivity when orders shrank by a third. Most that continued operations were overstaffed.

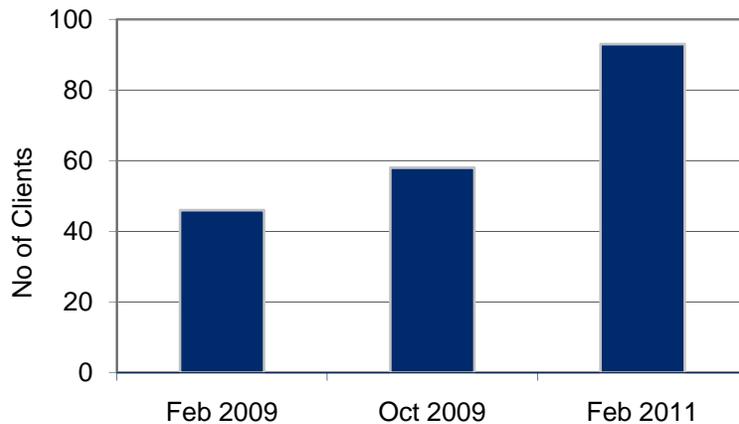
CASDEC continued to grow its income and its client base, launch new services to meet the needs of individuals and businesses, and adapt its technical skills to a more diverse audience.

## QUANTITATIVE RESULTS

### Market Penetration and Economic Impact

CASDEC’s clients are predominantly apparel factories but include firms from three new service sectors: small and medium enterprises, footwear, and food processing. CASDEC also introduced its services to the industry in Laos and participated in other activities with regional market potential (Figure 1).

Figure 1  
*Growth in Client Base*



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<sup>3</sup> Estimates vary because some factories closed temporarily, others permanently, and the number of firms producing varied by week.

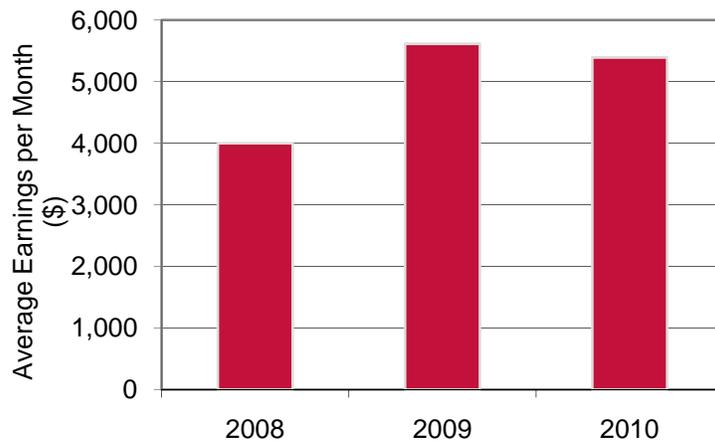
Under GIPC the technical team tracked results and calculated economic impact on the basis of the value of labor in additional production. CASDEC, however, did not maintain records as rigorously (the subcontract required metrics that tracked earnings and market growth), but regular client contact provides data that indicate the broader economic impact of clients' productivity gains.

CASDEC had seven factories with confirmed<sup>4</sup> significant productivity increases during the two-year funding cycle and the source reports include only enough information for five of those to estimate value of labor added to the economy; one of those is a small enterprise. Conservatively, these companies added \$4.5 million, gained through higher productivity, to Cambodia's economy.

## Revenue Growth and Reserves

CASDEC set annual earnings targets, but because of the uneven contract period, the 2009 year consisted of eight months (February–September), and the 2010 year of 16 months (October 2009–January 2011). To illustrate earnings growth, Figure 2 compares monthly income for the last year of the GIPC contract to monthly income for the CASDEC period.

Figure 2  
*CASDEC Monthly Earnings*



At the conclusion of the subcontract, CASDEC had earned over \$131,000. This exceeded the required contribution to operating expenses (\$4,000 monthly in the first year and \$4,500 monthly in the second year) by \$29,000. The surplus was needed, however, for other board-approved uses (a major equipment failure, for example, and marketing services regionally), but at the end of January 2011, CASDEC had a reserve of \$73,744 in fixed-term deposits.

The subcontract set the target for annual income too ambitiously, at \$120,000, and for the reserve fund at \$150,000. Both these targets were missed, earnings by 33 percent and reserve deposit by nearly 50 percent. The executive director, 18 months later, set a more attainable goal of \$90,000 in earnings for 2010 and missed it by only 4 percent.

<sup>4</sup> Data gathered from review of quarterly progress reports, but without regular comment this is probably a conservative estimate of results.

Despite the shortfall, the reserve is sufficient to maintain operations during the transition to a private sector institute, in alliance with HR (Cambodia), Inc., in 2011.

## New Products and Services Introduced by CASDEC

*Pattern making.* CASDEC offers a multitier service: training, certification, and CAD services using an automated plotter. The CAD service is especially valued by small workshops, and training has been popular with factories as well; ILO-sponsored pattern-making classes were given as a prize to design winners in the annual “I Am Precious” contest for garment workers. Pattern-making services generate approximately \$15,000 annually, with potential to double next year.

*Production Management Certificate.* Forward-looking universities hope to offer training that leads to employment; most focus on banking and business studies, but CASDEC has helped others to look at manufacturing. In partnership with Puthisastra University, CASDEC introduced a three-month certificate program leading to a management internship and employment. Factories employing the graduates express high levels of satisfaction, and one offered to sponsor a course and hire all graduates. This program generates approximately \$10,000 annually and has the potential to generate \$25,000.

*SME consulting/production supervision.* Small workshops—usually employing fewer than 50 sewers—have different production problems, and owners often struggle to supervise while managing the business. (This group includes NGOs providing employment to the disabled or trafficked women.) CASDEC responded with training and a production management service. Trusted workers learn to supervise, and CASDEC technicians visit the workshop on a regular schedule, troubleshooting and supporting them. This service generates approximately \$15,000 annually and its potential is unknown.

*Services to buyers’ representatives.* CASDEC has had some success in promoting services to companies representing international buyers with production in Cambodia. These agents seek local partners with manufacturing knowledge to help solve production problems, verify factory capabilities, and ensure timely delivery. Contract in negotiation, not yet concluded, but more relationships are being developed. Potential income is difficult to predict because, if business volume grows, the agent companies can be expected to open their own offices.

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*The number of small enterprises making products is growing exponentially. They may not have much for training in the beginning but need help like coaching and mentoring to build a business.*

José Vahl, Director, BDLINK

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*New sectors (footwear, food processing).* CASDEC’s executive director has been exploring the potential of new sectors. A footwear production expert provided training to the technical staff, and three companies received promotional consulting services. Several agricultural processing facilities have been visited. The potential of these new sectors is difficult to predict and the sectors may be best addressed through general training such as time and motion study.

## Employment

A number of CASDEC clients expanded operations, even during the downturn, and increased employment; six firms reported increasing staff size and credit CASDEC with helping them grow their business. Other clients may have increased staff, but we report only confirmed increases: nearly 5,000 jobs were added by factories and workshops.<sup>5</sup>

The addition of 5,000 jobs is an even more significant indicator of CASDEC impact, because official estimates place job losses during the same time period at over 50,000. Moreover, these gains were not made by the “obvious winner” companies, but by firms that invested in staff and production systems and created new jobs.

## Earnings

During the two years of CASDEC funding, 400 individuals were trained; over 80 percent of those were young women, and 70 percent of them cited CASDEC training as a key factor in raises and promotions received. (Anecdotally, graduates have reported increases of one-third or even incomes that doubled.) Employers probably sent high-potential individuals for training in the first place, but without the skills taught at CASDEC, similar progress would have taken years to achieve. A young woman moving from the factory floor into a supervisory or production planning or engineering role can be expected to increase income from \$60–85 per month (depending on overtime and bonuses), to \$200–400 per month and more.<sup>6</sup>

GIPC first surveyed “graduates” of its programs in 2008 to understand how training affected their lives. That first survey and 2 commissioned by CASDEC revealed how much a small investment in skills can affect individuals. Independent surveyors contacted former trainees within 3-9 months of completing training and found a consistent pattern of achievement and higher job satisfaction.

CASDEC did not attempt to measure indirect impact of training on overall factory wages, but some clients have reported that the economic impact of productivity increases was substantial. In one factory employing more than 1,000 workers, the average wage increased from \$70 per month to over \$120 per month as a result of CASDEC’s productivity improvement consulting.<sup>7</sup>

## BUSINESS ENVIRONMENT IMPACT

The primary objective of CASDEC funding was sustainability, but MSME2 is a business-enabling environment contract, and the board and executive director supported contributions to the Cambodian business environment. Impact in this area is difficult to quantify, but CASDEC

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<sup>5</sup> Information on employment gains was supplied by the executive director and may represent a cumulative figure for five years, rather than only CASDEC results. The CASDEC database captured 1,900 jobs gained in 2009–2010 but may understate results.

<sup>6</sup> Pay scale was determined by clients’ anecdotal information and confirmed by the 2007 Garment Industry Salary Survey conducted by HR (Cambodia), Inc., and GMAC, with assistance from GIPC and USAID Cambodia.

<sup>7</sup> Factories are sensitive to the potential impact of wage information on labor relations and require confidentiality in public documents, but additional information can be obtained through CASDEC.

was recognized for its role in workforce development forums, industrial relations dialogue, and policy development.

## Workforce Development

In the five years that USAID supported GIPC and CASDEC, the employers' opinion shifted from a lack of confidence in the capacity of the Cambodian workforce to a growing interest in finding, or training, local workers for well-compensated supervisory and production engineering roles.

Factories employing largely uneducated Cambodians had two standard arguments against training: that the local workers could not learn to be more efficient so it was more important to keep pay low, and that if an employee learned a new skill and left the factory the investment would be wasted.

CASDEC tracked its graduates and published the results: 90 percent remained with the same employer for at least a year after training. As an even more important benefit, employers found that the workers trained in CASDEC programs not only increased output from the lines they supervised, but that they could be as effective as or more effective than expatriates who earned higher salaries and received living costs. The new skills could be properly compensated, building loyalty, and still lower production costs and improve in-factory communication, as well as productivity.

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*The evolution of CASDEC has helped the industry; we've heard strong testimonials from some members about the positive effects. CASDEC has shown that it can be done in Cambodia, and now the factories have a genuine interest in training.*

*Dr. Ken Loo, Secretary General,  
GMAC*

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## **CREATING MANAGEMENT OPPORTUNITIES**

Partnering with Puthisastra University, CASDEC introduced a three-month production management course and internship, which found immediate placement for its first 10 graduates. One general manager was so pleased with the new hires he agreed to sponsor the next course, and a graduate of the program (who signed up after a year of unemployment) is being groomed to become a factory manager within two years. Of the over 270 factories in Cambodia, fewer than 10 are managed by Cambodians.

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*We have been supportive of some of CASDEC's programs which complimented our own comprehensive in-house training. It enabled us to move people ahead faster.*

*Kevin Plenty, General Manager,  
Quantum Clothing*

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## **COMPETENCY CERTIFICATION, NATIONAL AND REGIONAL**

One of the barriers to institutionalized workforce skills training has been the lack of certified qualifications. When the ASEAN Competitiveness Enhancement project, a regional USAID initiative to improve commercial ties among Southeast Asian countries, assisted AFTEX (the Association of Southeast Asian Textile Associations) to develop regional competencies, CASDEC worked with GMAC and the ASEAN project coordinator to pilot regional competency testing and certification in pattern making. Access to a regionally qualified program will open new opportunities for Cambodian workers, and CASDEC also expects to attract additional trainees in pattern making.

In Cambodia, CASDEC has obtained official recognition of its most important training programs, with certification by the Ministry of Labor and Vocational Training (MOLVT).

These are significant steps in creating a better-prepared workforce, in raising the earning capacity of Cambodian workers, and coincidentally, growing the market for skills training.

## Tripartite Dialogue

In 2007 GIPC accepted the leadership of a tripartite forum created by The Asia Foundation in 2005, and CASDEC continued to lead the forum at participants' request. The executive director coordinated three meetings each year, gathering representatives of organized labor, employers, and government together to discuss collaborative approaches to industry stability and global competitiveness.

The participants appreciated the opportunity for open communication and discussion focused on problems the participants could solve cooperatively. The talk also resulted in action. GMAC and the labor federations agreed in an early forum to expand their dialogue from quarterly to monthly, and continue to meet frequently. Employers (led by the Cambodian Federation of Employers and Business Associations) and the labor federations, along with MOLVT, now collaborate on uniform training in labor law. Because most of Cambodia's frequent labor disputes hinge on differing interpretations of the law, uniform training is an important step to better understanding.

Tripartite forum members advocated for its continuation, and the CASDEC executive director met with possible sponsors among the donor community to seek sustaining funds (less than \$10,000 per year). She found support for the concept but not contributions. With pressure to generate income increasing, CASDEC cannot commit to the time and cost of acting as secretariat of the tripartite forum but is proud of the achievements of the past two years. If the participants face another critical point like that in 2005, tripartite discussion can be resumed.

CASDEC's executive director also led another policy discussion group, the Trade SWAP (Sector Wide Approach), as cochair and chair of the Garment and Footwear Sector team. The Trade SWAP was designed by the donor community, led by UNDP, World Bank, and European Union donors to provide private sector guidance to the Ministry of Commerce. The committee included donors, industry representatives, and labor interests. The Trade SWAP was unsuccessful in moving policy forward, but CASDEC's leadership of the garment and footwear sector produced a unified vision of priorities for the future.

## Industrial Relations

The Tripartite Forum is one example of CASDEC's role in industrial relations: as a neutral party with considerable expertise in the garment industry, the organization improved understanding and the quality of discussion. CASDEC's participation in industrial relations also included

- Presenting productivity information to labor leaders, continuing the capacity building begun through GIPC; labor leaders showed a growing understanding of the potential of productivity improvement to increase incomes and began to call for training as an element in collective bargaining.

- Labor leaders and employers continued to participate, and work collaboratively for solutions, in the meetings that were initiated by tripartite forum discussions.

## SUSTAINABILITY

CASDEC's primary objective was to secure the sustainability of the organization to ensure that training would continue in Cambodia. Earnings failed to reach the level of operating costs, however, and the biggest gap was in compensation of critical personnel. The board decided to ensure continuity of the valuable resource that CASDEC became by accepting the proposal offered by HRI to convert CASDEC into a for-profit training institute. HRI, a human resources recruiting, training, and consulting company, is prepared to invest in the new institution and will add business and human resources training and consulting to create a more well-rounded curriculum.

This decision was reached after months of research, meetings with other stakeholders, and consideration of the options: continuing as an independent entity, partnering with another organization, or closing its doors.

*Independent Entity.* The executive director and the board favored continuing as an independent entity, committed to training and workforce development, allied with other stakeholders but self-directed and self-reliant. In the last quarter of 2010, however, CASDEC signed client contracts for \$18,900 in services; expenses hovered at around \$18,000 per month. The capital fund would sustain operations for 6 months, but critical staff could be expected to leave the organization to protect their own futures. Nathan Associates had discussed resource mobilization planning with the board, but an initial discussion between potential donors and the executive director was discouraging, and the board was concerned about any plan that required dependence on donor funding. They preferred a private sector approach, which was not possible as a stand-alone.

*Partner.* As a second option, CASDEC could seek a partner, or partners, to reduce overhead and increase market access and, ideally, supplement the thin management layer. CASDEC, and GIPC before it, had attempted to establish formal partnerships with GMAC, MOLVT, and other parties without success. Promising relationships failed due to differences in timing, philosophy, or evaluation of the business potential. The NGTI appeared to be another possible partner, but the state of planning did not allow the partnership, and GMAC apparently valued only parts of CASDEC and would dismantle some activities.<sup>8</sup>

*Close.* The least attractive option to all parties was to close the doors, and rely on the continued dissemination of CASDEC methods and productivity enhancing tools throughout the industry. CASDEC has created believers in its methods in the industry, in key ministries, and among educators; labor leaders now believe training and higher productivity improve individual earnings and employability as well as profits. CASDEC trainees report that they share their new understanding of time and motion, production controls and quality systems, with co-workers.

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<sup>8</sup> GMAC did approach CASDEC in December 2010 with a proposal to incorporate CASDEC into the NGTI, but the agreement with HRI was already in process. HRI leadership and the board of directors still hope to collaborate with NGTI.

Moreover, the CASDEC technical staff is fully capable of teaching in the proposed national institute, in university or in trade school, and of running factories which will continue to develop these skills and work methods in Cambodia. USAID's contributions have indeed changed the environment and are improving workforce skills, and the competitiveness of the industry.

In March, 2010, the COP met with the Board of Directors to discuss end-of-funding contingencies. At that time, only one firm partnership proposal, that of HRI, was offered. After discussion, the HRI concept was accepted.<sup>9</sup>

The COP and COTR met with HRI and board representatives in August 2010 to review the concept and agreed to using project funds to help with the transition and implementation, which will occur during the first (calendar) quarter of 2011.

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*The direction CASDEC has chosen is good, becoming a private sector entity.*

*The market has matured in the last 5 years and is ready for it... Dr. Lili*

*Sisombat, IFC*

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<sup>9</sup> The board member offering the proposal participated in the discussion to respond to questions, but did not vote on the outcome.

## 4. LESSONS LEARNED

Overall, CASDEC can be considered a successful project. The two years of continued funding reinforced the technical competence and flexibility of the training and consulting unit. The Cambodian staff shares a strong affinity with the organization; in fact, some refused offers of higher salaries to remain at CASDEC because they believe in the importance of the work, and at least one who left (to manage a family-owned factory) has offered to teach evening programs.

CASDEC's executive director is invited to participate in policy discussions nationally and in the region, and the organization is viewed positively by employers, labor leaders, officials from three ministries, and the donor community. CASDEC has a growing client base, and in the eleventh hour, two viable suitors offered different but sustaining partnerships. This may not represent full sustainability, but it is evidence that USAID Cambodia initiated a transformation in training and in working methods that is empowering individuals, helped companies survive and even thrive during the economic downturn, and is changing the culture of Cambodia's garment industry.

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*The organizational culture at CASDEC is one of its great strengths. The team is very positive, innovative, and committed to each other and to the mission. Tuomo Poutiainen, Managing Director, Better Factories Cambodia*

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Without question, there were also missteps. The experience gained through both the positive outcomes and the missed opportunities and errors may be helpful to others.

### EVALUATING STRATEGY

The original strategy for the organization had three elements:

- Create a Cambodian organization and empower local staff to manage operations and activities
- Help staff achieve technical excellence
- Build relationships with the industry and other stakeholders, both to understand training needs and to build the market.

The executive director followed the strategy laid out by GIPC; she consulted with advisers from Nathan Associates, the MSME2 project team, and the board, but set the direction and was innovative in implementation.

## ASSUMPTIONS

### A Cambodian organization would have the best chance of success and attract support, interest and alliances.

Branding CASDEC as a Cambodian organization provided opportunities for the executive director to build alliances with local stakeholders. It also balanced expectations of the many interests with which she maintained relationships; CASDEC was able to negotiate with clients and other organizations as a local institution, respected for its accomplishments.

### Cambodian staff could master the technical concepts and handle the work of the organization.

This assumption proved to be true, but it should also be recognized that the two years of additional coaching by engineering consultants, made possible by USAID's support of CASDEC, was critical to staff's reaching the current technical level and gaining confidence in their capabilities. CASDEC invested heavily in staff development, and as a result industry leaders who expected the organization to fail without the presence of foreign engineers—the experience of GMAC's training center—acknowledge that CASDEC has the strongest team of production management expertise in the country.

It remains difficult to evaluate the staff's comprehension with written or oral testing. This may only confirm that Cambodians test poorly, and learn theory best in practical situations, but the alternative is hours of observation, which is costly. It may also affect competency certification, which (at some point) may be required of the technicians. What is more, sales and marketing, as well as problem solving, remain outside the comfort zone of the technical staff despite coaching, and the executive director had most of the burden of marketing and public outreach.

### Services would become demand driven; factories would see the value in raising productivity.

This assumption was fundamental to the original GIPC project (and was confirmed by the GMAC leadership) and it remained central to the CASDEC strategy. It proved to be at least partially true, but “demand” remains limited, and marketing and sales require constant attention.

GIPC began promoting positive results of training as early as 2006, but the industry members seemed reluctant to accept the gains clients made, and the word-of-mouth that the project team expected did not develop. Only in the last year have there been results from client contacts.

Pricing has been one hurdle. CASDEC combines classroom work with weeks of in-factory training, so prices seemed high compared to \$150 for a three-day workshop. Although the programs brought results and a quick return on investment when the methods were applied, overcoming initial resistance is difficult. Attempts to customize training to reduce time and price sometimes left the client dissatisfied. Nevertheless, many clients return for multiple services, suggesting that they found pricing in line with value.

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*Yes, CASDEC training is expensive compared to some, but I do it because it really works.*

*Porphin Van, General Manager, MIG Garment Manufacturers*

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Market size may have been misjudged. Many companies will attend free events but not pay for services. A small number have well-established internal training. Some want to hire people already trained; others will never be convinced that training “works.” Some general managers cannot plan training without approval from a foreign home office. A member of the training subcommittee of GMAC’s Executive Committee speculated recently that perhaps half of the industry is interested in training, and of those an even smaller population can pay for training.

The project team has learned that virtually every regional training center receives support from government, and/or the industries it supports, and neither condition exists in Cambodia. HRI, however, in planning for the private sector institute, conducted a survey of employers in a wide range of industries. Banks, investment companies, utilities, agriculture, and construction companies gave feedback on training needs, training budget, and where they might turn for training in Cambodia. By addressing other business needs, the new entity can offer a diversified curriculum for a broader market.

### **Cambodia’s growing pool of employable youth would be attracted to management in the industry.**

GIPC conducted a survey of attitudes to employment in the garment industry, learning that those able to obtain an education regarded work in manufacturing as undesirable—“suitable for poor women with low education”—and factory conditions as dirty and unpleasant. The reluctance of educated youth to pursue manufacturing careers has become part of a cycle that keeps expatriates in supervisory positions, productivity low, and Cambodian jobs in the industry at minimum wage. More than 300,000 young people enter the job market each year, however, and the growing business sector cannot absorb all of those with degrees; it seemed likely that demand could be created for industry-related training among more-educated workforce entrants.

CASDEC invested time and resources in changing the perception of the industry and, in conjunction with Puthisastra University, implemented a three-month concentration in production management. Graduates were welcomed into factories on paid internships, which became supervisory and management positions within a year. The young graduates were surprised that the factories they visited were clean, cool, and light; they found the work interesting.

Despite their positive response and related publicity, the assurance of employment and the satisfaction of the graduates, attracting participants is difficult. One employer offered to sponsor the entire tuition cost, hoping to obtain new supervisors through the training, and the executive director is negotiating with banks for tuition loans, but the response remains weak. This is also something of a threat for the planned NGTI; the lack of high-capacity workforce entrants seeking skills will certainly affect the sustainability of an institute hoping to attract that element. CASDEC, with its ability to serve those already employed, and implement in-factory improvements, can provide other services while encouraging students to consider production management.

Unless the poor image of the industry can be balanced—and some employers certainly deserve it—the garment sector is unlikely to attract the talent needed to mature.

## **An established center for training and skills would attract industry support and allies to strengthen the institution.**

This assumption proved true, in that a private sector sponsor declared interest well before the end of CASDEC's USAID funding. GMAC, representing the industry, however, responded ambiguously<sup>10</sup> to CASDEC's offers of collaboration (which began as early as 2005, with GIPC) until December 2010. Even then, interest was conditional on implementation of the AFD-funded NGTI, which had not yet been approved by the GMAC membership.

GMAC and CASDEC did work together well on some initiatives, and GMAC leaders were regular participants in activities organized by CASDEC (such as the Tripartite Forum). CASDEC's board included two members of GMAC's Executive Committee. Despite its technical leadership, however, CASDEC was not included in strategic thinking about how to meet the industry's training and development needs.

Other stakeholders did work collaboratively with CASDEC; the ILO's Better Factories frequently contracted with CASDEC for services. The Ministry of Mines and Energy (MIME) had a productivity center that focused on small enterprises and sometimes consulted with CASDEC, and MOLVT provided valued insight into vocational skills policy. Most of these alliances did not result in reliable progress toward sustainability of CASDEC's production expertise and training in Cambodia.

## **Operating as a nongovernmental organization, rather than for profit, would instill confidence and make clients more amenable to fees and would provide a tax advantage.**

This assumption may have been incorrect. The Nathan Associates project team discovered that some board members were not comfortable with NGO status. Their collective experience working with NGOs was that NGOs lack business focus and are too easily distracted by social goals—important, but a lower priority than building a sustainable business. They also felt that clients would not see the NGO label as a sign of social purpose and trust that its pricing was fair. Rather, they would believe that the training should be offered for free. Operating as an NGO also became less attractive because of pending adoption of a new Cambodian law that would impinge on the privacy of board members' personal financial information.

At least one board member was concerned about the proposed for-profit institute, and that it might result in higher prices to meet profit objectives of a private company.

The board decided to change to a for-profit business but, as the debate illustrates, careful preparation and research do not ensure that the result will satisfy every contingency. An assessment of the ease with which changes can be made should be part of every decision, even if well researched.

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<sup>10</sup> In private conversations, some industry leaders indicated that international donor relations were a factor in collaboration between GMAC on one hand and GIPC and CASDEC on the other; JICA supported the CGTC and AFD was sponsoring the NGTI concept, and it was politically difficult to work too closely with a USAID-funded organization.

## KEY PARTNERSHIPS

The GIPC final report contains a thorough discussion of stakeholders and the alliances that contributed to successful activities. CASDEC, with its concentration on sustaining relationships, encountered some new dimensions.

### Industry

GMAC represents the exporting garment industry and has been seen as a critical ally. GMAC frequently announced CASDEC activities to its members (an important service, because many factories did not read communications from other organizations) and hosted CASDEC's technical seminars (an activity that built staff capacity, and added at least two clients). GMAC also participated in CASDEC-sponsored activities. GMAC, however, did not reciprocate or engage CASDEC in policy discussions, even for training policy, or activities. Without the support of respected factory managers who had excellent results with CASDEC services, it appears unlikely that GMAC would have made the December expression of interest in partnering with CASDEC. Because the board had felt compelled to make decisions for the future months earlier, however, it was unable to respond to GMAC with more than hope for collaboration.

The relationship may have been disappointing in some respects, but without the effort CASDEC exerted to maintain ties with GMAC, there is no question that opportunities and contacts would have been missed. The team working on the transition of CASDEC into the new entity has already advised GMAC of their continued interest in, and support for, the industry association and its work, offering to teach courses through NGTI.

Relations with individual client factories have, in the end, opened doors more effectively.

### ILO and Labor Organizations

CASDEC and the ILO's Better Factories Cambodia initiative have worked together on a number of programs, notably the "I Am Precious" contest for garment workers. This relationship helped CASDEC to develop its pattern-making capacity and provided a useful testing vehicle, and the ILO has been very supportive of CASDEC as a source of technical training for the garment industry. Participating in the International Buyers Forum, in which buyer companies meet with Cambodian industry, labor and government to discuss the status of the industry, has been especially helpful. Buyers influence factories' decisions to invest in training and are inclined to encourage the development of local resources such as CASDEC.

This relationship with ILO will continue to offer opportunities to CASDEC in its next stage, and it is hoped that the expanded curriculum of the new private sector institute (such as professional human resources training) will also be valued by Better Factories Cambodia.

### Government

MOLVT and MOC have been the key interested parties in CASDEC and its work, the first because of its responsibility for vocational training, and the second because of its interest in the development and competitiveness of the garment industry. CASDEC has no formal relationship with either ministry but has obtained support for specific programs. These relationships will continue to be important as Cambodia advances its national training and certification standards.

CASDEC also works with representatives of MIME, which is interested in productivity issues, and with Women's Affairs, because of the representation of women in the garment industry.

## Donor Community

CASDEC's executive director has maintained relationships with members of the donor community and with parties like The Asia Foundation that receive donor funds but also sponsor certain activities, both as a source of insight into policy direction and to learn of potential projects for CASDEC. The International Finance Corporation has been interested in the garment industry, and although funding is limited to Better Factories Cambodia and the ILO, it often shares information and ideas with CASDEC. Regular contact is also maintained with World Bank, UNIDO, and during the research into possible sponsorships with GTZ and others.

The Executive Director met regularly with AFD because of its interest in training in the garment industry. In a meeting at the close of the project AFD expressed disappointment, in very strong terms, that CASDEC's Board had decided to proceed with the private sector partnership rather than waiting for the NGTI, still at least a year in the future. The CASDEC team hopes that its new private sector entity can provide services to the NGTI, allowing NGTI to begin delivering courses immediately under some form of partnership or contracting agreement.

## ASSESSING IMPACT

CASDEC's impact as a Cambodian entity, delivering services that generated income and provided participants with a return on investment that far exceeded costs, is easily discussed in general terms and more difficult to present in metrics. The numbers may not sound dramatic when compared to the poverty levels in Cambodia, but they represent only the first level of the effect of CASDEC on the workforce and the industry.

- Four hundred individuals were trained, of whom 70 percent reported improved professional position and earnings; if 280 of those trainees earned an additional \$100 per month (a modest estimate according to the feedback received), over a quarter-million dollars per year was added to family incomes that would otherwise have been paid to expatriates and left the country.
- Services were provided to 50 private sector companies, from factories employing over 2,000 workers to small workshops employing 20 tailors; one factory client reported an increase in average payroll from \$70 per month to over \$120 per month for over 1,000 workers. That put more than a half-million dollars per year into family incomes.
- Factory managers were once skeptical of the ability of Cambodians to manage factories, but the 10 graduates of the CASDEC/Puthisastra University production management program are hired quickly and are rising to positions once reserved for expatriates.
- Boutique workshops that struggled to maintain quality and could not meet production demands are increasing their export capacity to markets in Europe, Japan, and the United States. The employment gains are small, estimated at 100 positions in two years, but represent increases in individual incomes and a truly Cambodian supply chain.
- CASDEC contributed to the development of competency certification, which has been an objective of MOLVT for some time; moreover, the pattern-making competency it

pioneered is in demand regionally, which may create more opportunities for Cambodians to find skilled work.

- CASDEC has trained 12 technicians, of whom 8 continue to work at the center; the technicians continue to apply the specialized skills acquired at CASDEC in new positions—as factory managers, as social responsibility auditors, and in small businesses—and will continue to do so with CASDEC or in other work.

The GIPC project maintained detailed tracking of client factories and used a model created by an industry expert economist to calculate the gains to the Cambodian economy obtained through the increased productivity of labor. CASDEC was measured using different standards (i.e., sustainability and earnings growth), but it is possible to use some of the same principles to assess return on investment.

The \$13.4 million added to the economy by the productivity gains of companies working with GIPC continued to add value during the past two years. In addition, new gains in productivity raised that figure even more. CASDEC increased the economic value added in Cambodia by at least \$4.5 million per year. At a minimum, the gains are five times the USAID investment of \$3.8 million and will continue to grow.