

PROGRAM TO ENHANCE COMPETITIVENESS IN THE APPAREL SECTOR

(TC-99-12-01-4)

EXECUTIVE SUMMARY

Executing agency:	Asociación Hondureña de Maquiladores [Honduran Apparel Manufacturers Association] (AHM).	
Beneficiaries:	Garment workers, technicians and middle management (supervisors, mechanics, instructors, quality control inspectors, human resource managers), together with trainers and academic and vocational institutions. Officials with the Ministry of Labor and trade unions will also benefit from this program.	
Objectives:	<p>The overall objective of this program is to enhance the competitiveness of the apparel industry in Honduras.</p> <p>Its specific objectives are to: (i) improve productivity of the sector's labor force through the creation of an in-service training system for garment workers and middle management; (ii) improve working conditions (especially in the area of occupational safety and health) for persons employed in the apparel industry; and (iii) ensure that employers in the sector are aware of the advantages of investing in continuous training and occupational safety and health.</p>	
Description:	<p>The program is designed to augment the comparative advantage enjoyed by Honduras' apparel industry by raising the productivity and improving the working conditions of the sector's workers. The program consists of the following three components: (i) in-service training system in production methods; (ii) an occupational safety and health system; and (iii) awareness, information and reporting of results.</p>	
Financing:	Modality:	Grant
	MIF: (Window II)	US\$1,100,000
	Local counterpart:	US\$ 897,500
	Total:	US\$1,997,500
Terms:	Execution period:	36 months
	Disbursement period:	46 months

**Special
contractual
clauses:**

As a condition precedent to the first disbursement, the AHM must present evidence satisfactory to the Bank that: (i) the Program Coordinator has been hired and possesses the professional qualifications agreed upon with the Bank; and (ii) the Work Plan for the initial six-month period of the program has been drawn up, and must include the terms of reference for the technical committee on productive training and the advisory committee on occupational safety and health and worker supervisor relations.

I. ELIGIBILITY OF THE COUNTRY AND THE PROJECT FOR FUNDING

- 1.1 On December 14, 1993, the Donors Committee declared Honduras eligible for all methods of financing available under the Multilateral Investment Fund (MIF). This operation is eligible for financing by the MIF through its Human Resources Window (Facility II) since it will make Honduras' apparel industry more competitive. Of particular relevance is the plan for developing an occupational safety and health system, which will increase the sector's ability to introduce changes and improve working conditions for persons employed in the apparel industry.

II. BACKGROUND INFORMATION

- 2.1 Garment-making is Honduras' most important industrial sector, surpassed only by agriculture in total earnings. However, it is currently growing at an annual rate double that of the agricultural sector.¹ To this must be added the apparel industry's potential for increasing and maintaining a significant number of jobs, with a work force – mainly female and young (between 18 and 30 years old) – which accounts for slightly over 70% of the sector's total employment. In 1998, the sector employed 110,000. By 1999, this figure had risen to 120,000, and by the year 2000 it is expected to reach 140,000.
- 2.2 There are approximately 200 maquiladora companies operating in Honduras, primarily in the garment-making sector. The major investors in this sector are from the United States (41%), Honduras (28%) and Korea (14%), while the remaining 17% are from various countries (Taiwan, Hong Kong, Singapore, Canada, etc.). Honduras is the leading supplier of the US market among the countries of Central America and the Caribbean, and that country's second leading supplier of clothing at the world level.
- 2.3 One of the most important factors in the sector's success has been the low wages paid to its work force, the so-called *comparative cost advantage*. However, this comparative advantage is becoming less effective as a means of attracting new investors owing to a number of trade factors and internal constraints on the industry.² This in turn has led the industry's leaders to seek new means of identifying and developing *competitive advantages* based on increasing the productivity of workers and improving the efficiency of production processes,

¹ Value added for the sector's exports has risen from US\$30.9 million in 1989, to US\$541.1 million in 1999, which represents 43.6% of the country's total export exchange earnings and 10.36% of GDP.

² These include: Mexico's trade preferences under NAFTA, appreciation in the value of the lempira, a relatively unskilled work force, inefficient manufacturing processes, lack of expertise in the use of quality control methods, and inadequate application of specific standards for working conditions resulting in lower labor productivity.

rather than simply promoting minimum wages for a work force with a relative low level of qualifications.

- 2.4 Attaining and improving on these advantages has become even more important following approval of the expanded Caribbean Basin Initiative or CBI.³ Under this new agreement, Honduras will enjoy new conditions which afford more favorable access to the United States market. Given this additional advantage and the sector's proven growth rate, production is expected to double in the next four years along with a rise in the value added portion of its exports. However, these advantages may be drastically reduced in the medium term since the Multifiber Arrangement is due to expire on January 1, 2005, leading to a more competitive international market.⁴
- 2.5 It is equally important that the GHO join with the industry and major stakeholders in the sector to develop a well thought-out strategy for planning expected growth of the industry, with resultant rural-urban migration and added pressure on basic services and housing. Similarly, the government must augment its capacity to monitor workers' rights in the industry, including freedom of association and collective bargaining, and to overhaul and modernize the sector's legal and institutional framework, and promote the training of trade union representatives as a means of improving labor relations.
- 2.6 **Labor and training needs.** Changes are taking place in the textiles and garment-making industries all over the world with the introduction of new requirements (small initial orders and follow-up restocking due to frequent style changes, etc.). This has forced manufacturers to streamline production processes to ensure faster response to these changes. At the same time, foreign distributors are looking for manufacturers who can provide *full package* services, which allows greater local autonomy yet requires more effective quality control. This gradual evolution in production methods will cause more and more production activities to be concentrated in the individual **garment worker**, everything from assembly to complete production of items of apparel. This, in turn, will require workers to identify, analyze and solve problems anywhere in the production process.

³ The United States law creating the Caribbean Basin Initiative (CBI) entered into force on January 1, 1984. With important exceptions (including textiles and apparel), this Initiative provided free access to the United States market for exports from countries of the Caribbean Basin. The Trade and Development Act 2000 (which will come into force on October 1, 2000) will eliminate some of the exceptions in the apparel and textiles sectors, while other products previously excepted by the CBI will receive treatment comparable to that which others receive under the Free Trade Agreement (FTA).

⁴ Other countries, particularly those which are more competitive in terms of prices (e.g. Southeast Asian countries) will be in a position to increase their share of international markets. The countries of Central America and the Caribbean thus have only four years in which to consolidate their share of the United States apparel market.

- 2.7 The workers presently employed in Honduras' apparel industry lack the skills needed by these new circumstances. For this reason, the sector's **middle management** is swamped with work which ought to be the responsibility of line workers. This situation also leaves middle managers no time for training or keeping up with the latest in production methods and management techniques. Although Honduras has both public and private institutions which offer vocational and professional training in this area, there are widespread complaints that they lack the training courses required to produce the garment workers and middle management personnel needed to compete in the new market. With the further opening up of the United States market, thanks to expansion of the CBI, this situation will only become worse as employment in the sector is expected to increase by approximately 100% over the next four years. This becomes even more worrisome considering the very high turnover rate which already exists among garment workers.
- 2.8 **Occupational safety and health (OSH).** The opening up of North American markets will require greater vigilance and closer attention to workplace standards as well, specifically those relating to occupational safety and health (OSH) conditions, among others. Pressure from consumers in the clothing market is placing new demands on distributors, forcing them to ensure that subcontractors and clothing manufacturers meet minimum labor standards with respect to their workers. In the United States, this movement has generated so much interest that in the near future all garment makers and other assembly operations will be required to pass inspections and be certified in order to obtain and maintain contracts with North American distributors.⁵ Since the North American market is the primary destination of Honduras' maquiladora companies, absorbing some 98% of their exports, this will be a compelling requirement.
- 2.9 Focussing attention on OSH in the workplace can also provide an opportunity to correct features of the production system in areas such as technology, materials and equipment, personnel, work methods and management performance. In other countries where efforts have been made to improve occupational safety and health conditions, the following additional benefits have been noted: better management of inputs and reduction in waste; improvement in the quality of products; greater adherence to deadlines; recovery of unused work space; energy savings; reduction in accidents and staff turnover rates; and improved labor relations. At present, however, most of the owners in Honduras' garment-making sector are unaware of the potential benefits in adopting OSH standards in their plants, requiring a shift to a modern industrial "culture".

⁵ Various programs have been started in the United States to require inspection and certification of labor standards in other countries around the world. Two of the most active are United Students Against Sweatshops (USAS) and the Worldwide Responsible Apparel Production Program (WRAPP). Information concerning WRAPP is available in the Department's technical files.

- 2.10 In Honduras, occupational safety and health aspects take a back seat to the client's (distributor's) requirements, and while they are subject to compliance with domestic legislation (1957), the latter is too general to be of much use. The responsibility for enforcement of OSH standards falls on plant managers or logistical staff and in only rare cases is a staff member assigned full-time to such duties. In the majority of cases, medical services are not provided by specialists in occupational medicine, but rather by a nurse and/or a general physician or gynecologist/obstetrician. Honduras has a separate occupational safety and health act as part of its Labor Code, but inspections are infrequent and inspectors are few in number and have only limited training.
- 2.11 Officers of the Asociación Hondureña de Maquiladores (AHM), an organization representing all of the country's garment-makers, have requested IDB/MIF support in an effort to raise the productivity of their work force and improve occupational safety and health conditions within the sector's companies.

III. OBJECTIVES, COMPONENTS AND ACTIVITIES OF THE PROGRAM

A. Objectives

- 3.1 The overall objective of this program is to enhance the competitiveness of the apparel industry in Honduras. Its specific objectives are to: (a) improve productivity of the sector's labor force through the creation of an in-service training system for garment workers and middle management; (b) improve working conditions (especially in the area of occupational safety and health) for persons employed in the apparel industry; and (c) ensure that employers in the sector are aware of the advantages of investing in continuous training and occupational safety and health.

B. Components

- 3.2 The program will consist of the following three components which are described below under the following headings: (i) in-service training system in production methods; (ii) occupational safety and health system; and (iii) awareness, information and reporting of results.

1. Component I: In-service training system in production methods (US\$179,500 MIF; US\$810,000 Counterpart)

- 3.3 **Development of permanent training system in production methods.** The program will finance the design of teaching kits for approximately 9 occupations considered the most important for the sector (4 for garment workers and 5 for middle managers). The occupations tentatively identified are: cutting, sewing, store-keeping, finishing, line engineer, supervisor, inspector, instructor and mechanic. For each of the nine occupations a battery of specific skills will be drawn up, along

with a course curriculum, a list of teaching materials and an instruction kit for teaching staff who will provide the training. Funds will be allocated under this heading for hiring a university or technical institute to design and develop the methodology for training in production methods, which will include occupational safety considerations. The design of this methodology will be carried out under the auspices of a Production Training Committee made up of senior members of the AHM, representatives of the Instituto de Formación Profesional (INFOP), representatives of the Universidad Tecnológica Centroamericana (UNITEC), the Program Coordinator and the specialist in training programs from the Project Coordinating Unit (see paragraph 4.4).

- 3.4 **Expansion and strengthening of existing training facilities: cooperating centers and virtual classes.** The lack of training facilities in the sector makes it necessary to undertake special efforts to improve the quality of existing programs, while at the same time increasing the overall number of suppliers. Under this subcomponent, suppliers of training programs will be evaluated and a comprehensive strategy will be developed for increasing the availability of training services, which will permit the establishment of two training subsystems: on the one hand, a system of cooperating centers for garment workers; and on the other hand, a system of virtual classrooms for the training of garment workers and middle managers alike.
- 3.5 The operation of **cooperating centers** is based on an agreement between the INFOP and the AHM. This agreement covers the establishment of centers in industrial parks/export processing zones (EPZs), free zones (FZs) or specific companies, and specifies that when these centers give training courses approved by the INFOP, AHM members will be reimbursed a portion of the 1% wage tax collected annually by INFOP.⁶ The establishment of **virtual classrooms** is based on another agreement which the AHM is negotiating with UNITEC for the provision of virtual training programs for workers and middle managers in the apparel industry, through cooperation with international universities which form part of UNITEC's support network. Both of these subsystems will follow the course curricula developed under the methodology subcomponent mentioned above.
- 3.6 The evaluation (see paragraph 3.4) for establishment of the **cooperating centers** will include identifying technical centers and experts that are not providing training services at present, but have the capacity to offer new courses to meet the sector's emerging demands. Similarly, EPZs or FZs with the necessary infrastructure and personnel will be eligible to offer the new curriculum. Universities or technical centers selected for the **virtual classrooms** program must have the capacity to integrate their telecommunications systems with that of UNITEC. Virtual

⁶ In 1999 the wage bill for the maquiladora sector totaled US\$305.8 million, distributed among some 120,000 employees (data from AHM's annual report). In the same year, the INFOP collected US\$3.058 million in tax from the maquiladora industry.

classrooms will be set up in EPZs, FZs or specific companies interested in participating in the virtual training program. A registry of cooperating centers and virtual classrooms will be compiled, and all services offered under both programs will be subject to quality standards. INFOP and UNITEC will use their own selection criteria to ensure that the technical centers individuals, EPZs, and FZs have the capacity and infrastructure necessary to establish quality cooperating centers and virtual classrooms.

- 3.7 MIF resources will be used to finance specialized courses for approximately 80 teachers, technical experts and professionals at 20 cooperating centers. Under the virtual training program, 50 computerized learning supervisors will receive training in order to staff 10 virtual classrooms. The teaching staff in both groups will receive training in the new coursework developed for the nine occupations listed earlier.
- 3.8 **Systems validation: testing of training courses.** The training courses will serve to test systems in use and thereby ensure its viability within the sector. The training will be aimed at two levels of staff: factory workers and middle managers, with the major emphasis on factory workers since they constitute the bulk of the sector's labor force. The target estimates call for the training of 20,000 garment workers and 10,000 middle managers over the three years of the program. The courses will be short in duration (average of 40 hours), and will include both theoretical and in-house instruction (or training in-situ).
- 3.9 Courses for factory workers may include new methods of cutting, sewing, quality control, handling of computerized machinery, etc. Training programs for middle managers will include instructions for interpreting technical information, operations control; filling orders; verification of cutting operations; inspection of OSH conditions; instruction of garment workers; and equipment maintenance. The Project Coordinating Unit will keep record of the training courses given, the participants in attendance and reimbursements received from INFOP. The companies of the sector will finance almost all courses using the reimbursements received from INFOP, supplemented with their own resources. Companies which elect to participate in the training component will be automatically enrolled in the activities of the OSH component.

2. Component II: Occupational safety and health system (US\$279,000 MIF)

- 3.10 **Curriculum development.** In order to meet their new international commitments, companies must begin immediately to assume responsibility for introducing the necessary changes in their production systems and OSH conditions. To help these companies meet this obligation, and at the same time benefit from increased labor productivity, this MIF program will design training courses for three groups, viz: managers responsible for OSH, physicians/nurses employed by the target companies, and Ministry of Labor inspectors.

- 3.11 For this purpose, consultants will be hired to design or select and adapt curricula, teaching materials and instruction kits for the teachers who will conduct training courses for these three groups. The courses will be designed in modular fashion, with four modules specifically aimed at **managers responsible for OSH**: accident prevention; accident investigation; impact on health of environmental hazards (chemical substances, physical and ergonomic features); and emergency precautions. Six modules will be designed for **physicians/nurses**, including *inter alia*: adverse health effects and causes; toxicology of environmental hazards; medical records: confidentiality and handling of information; and pre-placement examination of new employees. **Inspectors** will receive training under two modules: basic concepts in auditing and the audit process.
- 3.12 Two additional courses will be developed and offered to all groups on a continuing basis: accident investigation and teaching methods for the instruction of employees (line workers, middle managers, directors) in the measures to be taken to prevent accidents and injuries.
- 3.13 **Training of instructors.** Although this type of training is virtually nonexistent in Honduras, there are a few private sector institutions and individual experts that could be trained for this purpose. The team of consultants or the consulting firm hired for curriculum development will also be responsible for training the instructors, who will in turn provide training services for managers in charge of OSH, physicians/nurses and inspectors.⁷ Through its specialized courses, the program will finance the training of four instructors, technical experts or professionals from two or three participating institutions. This training will be based on the new modular courses to be developed under component I.
- 3.14 **Tests of training course in OSH.** In order to ensure the pertinence and viability of the curriculum developed, program resources will be used to conduct a series of tests of the training course in OSH. The three groups will be given modular training once the teaching staff has received instruction and been certified to provide training services. The target estimates for the program call for the training of 50 managers responsible for OSH, 50 physicians/nurses and 8 Ministry of Labor inspectors over a three-year period. The courses are expected to be of short duration (10-15 days at intervals). Courses for inspectors will be 3-5 days in length.
- 3.15 **Worker-supervisor relations.** Worldwide experience has shown that the worker-supervisor relationship can have a profound impact on efforts to promote good practices in the field of occupational safety and health, as well as improve productivity. The program will include working sessions to develop workshops aimed at managers, supervisors, workers, representatives from the Ministry of Labor and trade unions highlighting such critical issues as: labor relations (freedom

⁷ Local institutions have been identified with qualified personnel who can be trained to work in cooperation with the program.

of association, collective agreements and individual labor contracts), personnel management and supervision, human relations, legal rights and obligations of workers, human resource development, and wage and salary structure based on productivity. These workshops will be designed with the cooperation of the program's Consultative/Advisory Committee (see paragraph 4.6), and organized with three target groups in mind: (i) human resource directors, (ii) garment workers, and (iii) managers and representatives of the Labor Ministry and trade unions. Seminars will also be organized to disseminate information on best practices developed by companies deemed to be model operations for the sector. Organizations specializing in these topics, such as the DIEESE (Inter-Union Department of Socioeconomic Studies and Statistics) and the UOCRA (Argentine Construction Workers Union), will be hired to conduct the workshops.

3. Component III: Promotion, information and reporting of results (US\$115,000 MIF)

- 3.16 **Promotion.** In order to raise awareness of the need for investing in better training and OSH systems, funding will be provided for seminars explaining how the program fits within the sector's competitiveness strategy. Two experts will be hired from countries with a longer history and proven track record in garment making, one in the area of training and the other in occupational safety and health. While preparations are being made for components I and II, workshops will be held at different stages to keep business leaders informed of progress under those components and to elicit comments regarding the elements that they wish to see included in their activities. Representatives of the Ministry of Labor, the trade unions and the Instituto Hondureño de Seguridad Social will be invited to attend these workshops as well.
- 3.17 **Information.** To keep the beneficiaries and other interested parties informed of progress under this operation, a link will be established to the AHM's Web page which will include information on the program's seminars and workshops. When the preparatory stages have been completed, a registry of courses will be available showing the courses offered and their locations. As a promotional device, the program will finance the production of printed materials describing its activities, which the AHM can include in the welcome package it provides to new maquiladora companies, the promotional material it send to potential maquiladora operations, and other documentation it supplies for interested parties.
- 3.18 **Reporting of results.** Funding will be provided for the organization of a business workshop with speakers from other countries with greater experience in the development of the apparel industry, for the purpose of analyzing with their Honduran counterparts the transition which their country must go through during the period 2000-2005. In addition, two high-profile seminars will be organized to report the results of the mid-term and final evaluations of the program. These seminars will be aimed at all stakeholders in the public and private sector, as well as those in civil society. The information provided is intended to serve as the basis for

decisions concerning key aspects for promoting new laws, modifying existing procedures, improving processes, etc.

IV. EXECUTING AGENCY AND SUPPORT FACILITY, STATUS OF PREPARATIONS AND DIRECT BENEFICIARIES

A. Executing agency

- 4.1 The Asociación Hondureña de Maquiladores (AHM) is a non-profit, private sector institution legally mandated as an umbrella organization for all of the country's maquiladora companies which produce for the export market. The Association was created in 1991 to promote and develop the maquiladora export industry, serve and represent its members vis-à-vis both public and private institutions within Honduras and abroad. It also cooperates with the GHO in the development of legislation and the negotiation of agreements such as the current Caribbean Basin Initiative. The AHM manages an annual budget in excess of US\$360,000 with a professional staff of ten employees. The Association is currently expanding its personnel and physical plant owing to the entry of new companies into the sector.
- 4.2 **Other program participants.** The program will also receive support from other organizations in the sector which will sit as members on the program's committees. These organizations include the following: The Asociación de Zonas Francas de Honduras (AZAFRANCAH); the Fundación para la Inversión y Desarrollo de las Exportaciones (FIDE); the Ministry of Labor; the trade unions; the INFOP; and the UNITEC. (Technical files contain a detailed description.)

B. Organization of the program

- 4.3 **Mode of operation.** During program preparation, draft Operating Regulations were drawn up, to be used for preparation of the semiannual work plans, which will provide detailed guidelines for proper execution of the program.
- 4.4 **Project Coordinating Unit.** The management of the program will be the responsibility of a Project Coordinating Unit (PCU) created within the AHM and consisting of a coordinator, an expert on training programs, a specialist in occupational safety and health, an assistant accountant and a secretary. (The terms of reference for the staff of the PCU are available in the program's technical files.) The PCU will provide technical support and coordination of the activities under all three components, and will also be responsible for the hiring of consultants and contracting for the services required for executing the program. The PCU will be equipped with the computer hardware necessary for carrying out the logistical activities required by the program. All procurement of goods and contracting of consulting services will be carried out in accordance with the Bank's policies and procedures.

- 4.5 **Committee on training in production methods.** This committee will be made up of senior members of the AHM, representatives of the INFOP and the UNITEC, the program coordinator and the expert on training programs. The committee will meet when required for review of the program materials and training modules, and at the request of the coordinator. (See paragraph 3.3.)
- 4.6 **Consultative/advisory committee on occupational safety and health and worker-supervisor relations.** This committee will consist of the Tripartite Commission (AHM, Ministry of Labor and labor unions) and the Instituto de Seguridad Social, UNITEC and INFOP, plus others. The committee will meet at the request of the program coordinator and the specialist in OSH to review specific materials or modules, and will serve as a means for direct consultation with technical experts (see paragraph 3.15.), and will also participate in the semiannual monitoring of program execution (see paragraph 4.7 below).
- 4.7 **Monitoring.** The AHM will be responsible for monitoring and preparation of the respective reports, and will involve the advisory committee in program monitoring. Semiannual progress reports must be prepared documenting the activities of the previous six months. The reports, to be presented in the format agreed upon with the Country Office in Honduras, will include information on compliance with the performance indicators listed in the Logical Framework. In addition, a disbursement schedule for the subsequent six-month period will be prepared. These progress reports will be submitted to the Bank's Country Office within 30 days following the close of each half-yearly period for its approval.
- 4.8 **Accounting and audits.** The AHM will be responsible for: (a) establishing and maintaining accounting and financial controls and adequate internal auditing, as well as a ledger system which will provide detailed records of the source and utilization of the program's funding, including: (i) identification of amounts and sources of funds, (ii) information on the program's expenditures, distinguishing between those paid out of MIF resources and those covered by funding from other sources, and (iii) the details required to identify the goods procured and the services contracted for; (b) opening separate bank accounts for administration of the MIF contribution and the local counterpart funding; (c) processing of requests for disbursements and the respective substantiation of expenditures in accordance with the Bank's disbursement procedures; and (d) preparing and submitting to the Bank the final, audited financial statements on the program, and the semiannual reports on the revolving fund.

C. Program beneficiaries

- 4.9 The beneficiaries of the program include some 20,000 workers and 10,000 middle managers in the apparel industry. Individual instructors and educational and vocational training institutions will also benefit from the program since they will gain experience with new training methods and teaching procedures designed to fit

the needs of the sector. Benefits will likewise accrue to the representatives of the Ministry of Labor and the sector's trade unions.

D. Committee on Environment and Social Impact

- 4.10 The Bank's Committee on Environment and Social Impact (CESI) considered this operation at its meeting No. TRG 25-00 on July 7, 2000, and recommended that the training activities include modules designed to sensitize supervisory personnel to possible abuses and working conditions that may be offensive to female workers, including: harassment, wage inequities, disproportionate benefits, lack of sanitation, excessive hours of work, etc. It was recommended that the training be included to ensure that both male and female employees are aware of their rights and obligations, as well as other matters relating to health (maternity/paternity benefits, etc.). These recommendations have been included in the subcomponent on worker-supervisor relations.

E. Project readiness

- 4.11 The program is deemed to be in an advanced stage of development for the following reasons: the qualifications of the coordinator have been determined and the AHM is in the process of identifying suitable candidates; the AHM has made the necessary commitment and budgeted the counterpart resources for the execution period; and the EPZs y FZs have made a commitment to participate in the program, along with other training centers; the impact indicators have been formulated jointly by the AHM and the project team.

V. COSTS AND FINANCING

A. Costs

- 5.1 The program will be carried out over a period of three years and has an estimated cost of US\$1,997,500. The MIF will contribute US\$1,100,000 (58%) on a nonreimbursable basis, and the counterpart funding will total US\$997,500 (42%), 94% of which will be a cash contribution. Below in summary form is the budget for the program. An itemized budget is in the technical files.

Components	MIF	Counterpart	Total
Comp. I In-service Training System in Production Methods	179,500	810,000	889,500
Comp. II Occupational safety and health System	279,000	0	279,000
Comp. III Awareness, Information and Reporting of Results	115,000	0	115,000
Monitoring, Evaluation and Audits	94,000	0	94,000
Project Coordinating Unit	338,500	40,000	378,500
Equipment	9,560	6,100	15,660
Administrative Expenses	15,300	41,400	56,700
Contingencies	69,140	0	69,140
Total	1,100,000	897,500	1,897,500

B. Financial sustainability

- 5.2 Operating costs for training programs under components I and II will be covered in their entirety by the participating companies. The MIF contribution will be allocated expressly and exclusively to establishing efficient training systems, raising the quality of local training programs, and ensuring that the services provided by local suppliers are consistent with the needs indicated by the sector's companies.

VI. JUSTIFICATION AND RISKS INHERENT IN THE PROGRAM

A. Justification

- 6.1 Leaders in the apparel industry have stated that there are too few trained workers and middle managers to handle the necessary growth and develop competitive advantages in areas such as introducing more flexible production methods, becoming more aware of clients' needs, quality control, etc. Similarly, the business community in general hopes to secure greater production and competitive advantage through introduction of OSH practices. Finally, performance in this area is seen as a key factor for increasing foreign investment in the sector by responding to the concerns of multinationals and international consumers with regard to working conditions in Honduras' apparel industry. It is felt that this project can serve as a model and catalyst for other countries, setting goals for upgrading the skills of workers and middle managers, improving labor conditions in the industry at the regional level, and generally achieving the transition to a higher value-added industry.

B. Risks

- 6.2 There are two potential risks that could affect the program: one is the possibility that those companies with the greatest need for investing in and adopting OSH standards might fail to live up to their commitment to participate, and the other is a possible lack of successful cooperation between teaching staff and industry representatives in coming up with high-quality training modules. To reduce these risks, the program will mount a promotional campaign aimed at inculcating among the sector's leaders a modern business philosophy emphasizing efficiency and the importance of a quality working environment. And to mitigate the second of these risks, the AHM has agreed to hire highly qualified personnel to be added to the project coordinating unit for the purpose of recruiting expert teaching staff to take part in the program.

VII. PERFORMANCE CRITERIA, PROGRAM BENCHMARKS AND EVALUATION OF RESULTS

- 7.1 Using funds provided by the MIF donation, an international consultant will be hired to conduct a survey for the purpose of establishing baseline data to serve as a framework and guideline for use in preparing mid-term and final evaluations.
- 7.2 The program will thus include two major assessments: a mid-term evaluation and a final evaluation. The mid-term evaluation will be carried out when 40% of the program's funds have been disbursed, provided this occurs no later than month 20 of the execution period. The final evaluation will be conducted within a period of four months following completion of the program.
- 7.3 The mid-term evaluation will analyze and make recommendations regarding the progress of the project, and propose any changes in its execution that may be necessary. Both evaluations will assess the degree to which major program objectives have been accomplished, in accordance with the indicators set out in the Logical Framework contained in Annex I. The Bank will be responsible for hiring the firm of consultants to establish the baseline data that will serve as framework and guideline for the mid-term and final evaluations.

VIII. EXCEPTIONS TO THE BANK'S POLICIES AND PROCEDURES

- 8.1 None.

IX. SPECIAL CONTRACTUAL CONDITIONS

- 9.1 As a condition precedent to the first disbursement, the AHM must present evidence satisfactory to the Bank that: (i) the Program Coordinator has been hired and possesses the professional qualifications agreed to with the Bank; and (ii) the Work Plan for the initial six-month period of the program has been drawn up, which will include the terms of reference for the technical committee on training in production methods and the advisory committee on occupational safety and health and worker-supervisor relations.

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LOGICAL FRAMEWORK

Indicators	Objectives	Means of Verification	Assumptions
competitiveness of the stry in Honduras.	<ul style="list-style-type: none"> At the end of three years, a rise in Value Added has been recorded among participating companies. 	<ul style="list-style-type: none"> Annual reports of the AHM. Quarterly reports of International Development Systems (IDS) [index of volume of economic activity]. Semiannual reports submitted to the Bank by AHM. Definition of baseline data used to measure impact of the program. Mid-term evaluation. Final evaluation. 	
of labor force and working occupational safety and ng companies in the or has improved.	<ul style="list-style-type: none"> The personnel of participating companies have acquired multiple skills which enable the companies to adjust more quickly to demand (the productivity indicator will be determined in the course of developing baseline data). The 50 participating companies are adhering to international standards for OSH. Surveys of the business leaders who took part in the creation of the baseline data, and investment trends show that business interest in the sector are becoming aware of the need to invest in training systems and occupational safety and health. 	<ul style="list-style-type: none"> Semiannual reports submitted to the Bank by the AHM. Definition of baseline data used to measure impact of the program. Mid-term evaluation. Final evaluation. 	<ul style="list-style-type: none"> Trade agreements continue the trend towards greater flexibility.

Indicators	Objectives	Means of Verification	Assumptions
<p>ce training system in on methods.</p> <p>ional safety and health</p> <p>ess, information and g of results.</p>	<ul style="list-style-type: none"> • 20.000 workers receive training in three years. • 10.000 middle managers receive training in three years. • 20 ccooperating centers established. • 10 virtual classrooms established. • 80 instructors/experts in 20 cooperating centers receive instruction in new methods of training production workers. • 50 virtual training supervisors in ten virtual classrooms receive instruction in new methods of training production workers. • 50 managers responsible for OSH in 50 companies/EPZs/FZs receive training in OSH subjects. • 50 physicians/nurses in 50 companies/EPZs/FZs receive training in OSH subjects. • 4 instructors/experts receive training in the provisions of teaching services for managers responsible for OSH and physicians/nurses. • 8 inspectors from the Ministry of Labor receive training in conducting OSH audits. • In 3 years the number of firms investing in training systems and OSH systems has increased by some 30%. 	<ul style="list-style-type: none"> • Semiannual reports submitted to the Bank by the AHM. • Mid-term evaluation. • Final evaluation. 	<ul style="list-style-type: none"> • The agreement with INFOP executed in a timely manner. • The industry's business leaders and industrial parks participate fully in the program. • The quality and clarity of the modules permit effective training. • Industry firms make the necessary changes and investments in their operations to meet OSH standards.

Indicators	Objectives	Means of Verification	Assumptions
<p>1: <u>Training system in</u> <u>methods</u></p> <p>Develop curriculum, teaching materials, training kits for training staff and experts; recruit and train teachers and supervisors of virtual classrooms) within the first six months.</p> <p>Update the registry of courses and out and database (access) within the first three months.</p> <p>Develop strategy and identification of suppliers in the first three months, and conduct evaluations to select the 20 cooperating centers and 10 virtual classrooms within the first six months.</p> <p>Recruit eight professional teachers from a national university in months 8-10 of the program.</p> <p>Recruit 80 instructors from 20 cooperating centers in months 8-10 of the program.</p> <p>Establish 20 cooperating centers in months 8-10 of the program.</p>	<p>US\$95,000</p> <p>US\$1,500</p> <p>US\$15,000</p> <p>US\$8,000</p> <p>US\$60,000</p> <p>US\$0</p>	<ul style="list-style-type: none"> Semiannual reports submitted to the Bank by the AHM. Mid-term evaluation. 	<ul style="list-style-type: none"> Business community is ready and willing to participate in the program. Professional teaching staff, instructors in cooperating centers, supervisors of virtual classrooms, human resource managers, physicians/nurses and inspectors are interested in taking part in the program. Counterpart funds are disbursed in a timely manner and in sufficient amounts.

Indicators	Objectives	Means of Verification	Assumptions
Establish 10 virtual classrooms during months 8-10 of the program.	US\$100,000		
Train 20,000 garment workers in months 13-34 of the program.	US\$640,000		
Train 10,000 supervisors in months 13-34 of the program.	US\$70,000		
Part II:			
<u>Occupational safety and health system</u>			
Design curriculum, teaching materials and training kits for professional teaching staff (instructors), managers, physicians/nurses and inspectors in the first six months.	US\$97,000		
Purchase instructional equipment during months 5 and 6 of the program.	US\$5,500		
Identify and evaluate four instructors (professional teachers/inspectors) within the first three months.	US\$10,000		
Train four professional teachers (instructors of OSH) during months 7-8 of the program.	US\$20,000		
Engage 50 managers responsible for OSH during months 9-12 of the program.	US\$12,500		

Indicators	Objectives	Means of Verification	Assumptions
50 physicians/nurses during months 9-12 of the program.	US\$12,500		
8 inspectors during months of the program.	US\$2000		
workshops for 20,000 workers and 10,000 supervisors during months 12-30 of the program.	US\$45,000		
sign courses on worker-supervisor relations in the first months.	US\$30,000		
50 human resource managers from 50 participating companies during months 8-10 of the program.	US\$22,000		
management workshops for participating companies, with representatives of the Ministry of Labor and trade unions during months 12-30 of the program.	US\$15,000		
workshops for 30,000 employees (20,000 workers and 10,000 supervisors) during months 12-30 of the program.	US\$2,500		
management exchange workshop on best practices for managers from 50 companies during months 13-28 of the program.	US\$5,000		

Indicators	Objectives	Means of Verification	Assumptions
<p>Indicator III: <u>Information and reporting</u></p> <p>Design promotional campaign in the first six months.</p> <p>Organize four seminars for presentation of the competition strategy, training program and information system to 50 participants in the first four months of the program.</p> <p>Include a link to the program's page within the first four months of the program.</p> <p>Printed insert within the first four months of the program.</p> <p>Organize two seminars for reporting results of mid-term and final evaluations in months 20 and 40 of the program, respectively.</p>	<p>US\$75,000</p> <p>US\$22,000</p> <p>US\$2,000</p> <p>US\$5,000</p> <p>US\$11,000</p>		

PROPOSED RESOLUTION

**HONDURAS. NONREIMBURSABLE TECHNICAL COOPERATION FOR A
COMPETITIVENESS PROGRAM FOR THE APPAREL PRODUCTION SECTOR**

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the "Asociación Hondureña de Maquiladores" and to take such additional measures as may be pertinent for the execution of the donor's memorandum referred to in Document MIF/AT- with respect to a technical cooperation for a Competitiveness Program for the Apparel Sector.
2. That up to the amount of US\$1,100,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Human Resources Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.