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**HAITI**

**STRENGTHENING MARKETS AND COMPETITIVENESS OF SMALL AND  
MICROENTERPRISE IN THE HAITIAN GARMENT SECTOR**

**(TC-99-01-031)**

**DONORS MEMORANDUM**

**This document was prepared by the project team consisting of: Graciela Cintora (COF/CHA); Ralph Denize (COF/CHA); William Grant (consultant); Louis-Francois Chretien (LEG/OPR); Alexandra Santillana, (SDS/MIC); Lara Goldmark (SDS/MIC); and Dieter Wittkowski (SDS/MIC), team leader.**

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Proposed Project Resolution

## PROJECT TECHNICAL FILES

### Material used in project preparation

- INDEPCO By-laws
- Financial Statements
- Garment Sub-sector map
- Projected Income Statements
- Consultant's report and institutional assessment

### Material used for project execution

- General industry baseline study prepared by consultant
- Terms of Reference for baseline study
- Draft of internal regulations
- Selected Performance Indicators
- Principles for Guarantee Fund for Raw Materials

ABBREVIATIONS

AID	United States Agency for International Development
CESI	Committee on Environment and Social Impact
INDEPCO	L'Institut National pour le Developpement et la Promotion de la Couture
SME	Small and Microenterprises

**STRENGTHENING MARKETS AND COMPETITIVENESS OF SMALL AND MICROENTERPRISE IN  
THE HAITIAN GARMENT SUBSECTOR**

**(TC-99-01-031)**

**EXECUTIVE SUMMARY**

**EXECUTING AGENCY:** L'Institut National pour le Developpement et la  
Promotion de la Couture (INDEPCO)

**BENEFICIARIES:** Microentrepreneurs working in sectors with potential  
growth

**OBJECTIVES:** The general objective of the project is to improve  
the participation of micro and small enterprises in  
the garment subsector in Haiti, while contributing to  
the sector's competitiveness. The specific  
objectives are: (i) to improve market access of small  
and microenterprises (SMEs) in the garment subsector;  
(ii) to support the development and delivery of  
quality training products which enhance SME capacity  
to access new markets; and (iii) to strengthen a  
national association which holds potential to  
stimulate long-term growth in the subsector.

**DESCRIPTION:** The proposed Program would provide: (i) market access  
development activities; (ii) training services for  
garment subsector SMEs; and (iii) institutional  
strengthening of INDEPCO to promote SME market  
access.

**FINANCING:** Modality: Technical cooperation

INDEPCO: US\$190,000

MIF: US\$370,000 non-reimbursable (Window III-A)

Total: US\$560,000

**TERMS:** Period for project execution: 3 years  
Period for disbursements: 42 months

**ENVIRONMENTAL AND  
SOCIAL REVIEW:** The Committee on Environment and Social Impact (CESI)  
in their meeting held on March 29th, 1999 reviewed  
this operation and provided recommendations which  
have been taken into consideration by the project  
team and in the design of the operation.

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

Up to the equivalent of US\$20,000 in project resources will be used to provide technical assistance to help INDEPCO carry out activities to fulfill the conditions prior to the disbursement of the remainder of the funds. These funds will be used to: (i) conduct the baseline data collection of socio-economic and business information on INDEPCO's members; (ii) facilitate the development of a medium-term strategic business plan and the first year annual operating plan; and (iii) develop a complete version of Internal Operating Regulations to be approved by the Bank.

Prior to the first disbursement of the remainder of the funds, INDEPCO will present to the Bank: (i) the terms of reference for consultants to be hired under the training and market access development components; (ii) the completed strategic business plan; (iii) the annual operating plan for the project's first year; and (iv) the complete version of the Internal Operating Regulations.

Prior to the first disbursement of the Guarantee Fund for Raw Materials, INDEPCO will present the Fund's operating procedures to the Bank's satisfaction. These procedures will be compatible with the principles developed by the project team during project design, and will ensure the maintenance of value of the fund.

Paragraphs 7.1 through 7.6 describe conditions for project execution, including project monitoring, reporting, presentation of financial statements and evaluations.

**PROCUREMENT**

Acquisition of goods and services will be governed by the Bank's procurement procedures.

## I. ELIGIBILITY

- 1.1 The MIF Donor's Committee declared Haiti eligible for all forms of MIF financing on September 11, 1995.

## II. BACKGROUND

### A. Country Context

- 2.1 Haiti is a country characterized by extreme poverty, and extreme political difficulties as well. The crisis caused by the economic embargo (1991-1994) caused a significant decline in the standards of living of the Haitian population and compromised the development prospects of the country. In the years following the end of the embargo, external aid flows to Haiti were so heavy that there was serious concern among policy makers about harmful effects on the country's competitiveness and about the sustainability of such flows. More recently, the situation has reached the other extreme, as intractable political conflicts have blocked aid disbursements for the foreseeable future. The only hope at present is that the country's private sector will continue to function and even grow, in an increasingly hostile macroeconomic and policy environment.
- 2.2 In broad terms, industry in Haiti consists of state-owned enterprises and medium and small-sized private enterprises producing for domestic demand, as well as a small number of large private firms processing domestic agricultural products and raw materials, and assembling imported components for foreign markets. In this simplified industrial structure, the dynamism of the informal and handicraft sectors is noteworthy in terms of providing employment and income generating opportunities, particularly for women.<sup>1</sup>
- 2.3 The micro and small business sectors in Haiti employ a substantial share of Haiti's economically active population. Small and micro enterprises suffer disproportionately from devaluation of the currency and high production costs, given that they purchase imported capital goods and material inputs; have no mechanisms for hedging against inflation; and face stiff competition with imported, often contraband, finished products.<sup>2</sup>

### B. The Bank's strategy in Haiti

- 2.4 The overarching goal of the Bank strategy in Haiti is the reduction of poverty through sustainable private sector-led economic growth. The main areas of focus for achieving these goals are: investment

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1/ Haiti Country paper, GN-1933-1, November 1996.

2/ Ibid.



in human capital, institutional strengthening, and private sector development. This project, with its aim of drawing small and microenterprises into the mainstream economy by providing access to markets, its short-term support to the provision of business development services, and its long-term focus on strengthening INDEPCO, fits well with the Bank's approach.

C. The garment subsector and business development services for small and microenterprises

- 2.5 The Haitian garment subsector is comprised of many different actors performing a variety of services. The main functions performed in the process of delivering finished garments to the various markets are: (i) supply of raw material (textiles and accessories); (ii) actual production of the garment (designing, cutting, and assembling the product); (iii) wholesaling the product; and (iv) retailing the product.
- 2.6 The subsector can be divided into approximately six different distribution channels, ranging from micro and small producers which perform simple, limited functions in response to individual or small-scale client requests; to vertically integrated assembly factories which respond to large-volume orders from foreign clients.
- 2.7 Within the subsector, INDEPCO plays a unique role in linking micro and small enterprises to large-scale purchasers, through an integrated package of subcontracting, training, and technical assistance services. INDEPCO is currently the only actor in Haiti which serves this function.<sup>3</sup> In the long term, there is the possibility that INDEPCO could delegate some of its functions to its members, local tailor associations and cooperatives. Currently, these local institutions are weak and serve only to group the tailors together when it is time to allocate contracts.

### III. PROJECT OBJECTIVES AND ACTIVITIES

A. Objectives

- 3.1 The general objective of the project is to improve the participation of micro and small enterprises in the garment subsector in Haiti, while contributing to the sector's competitiveness. The specific objectives are: (i) to improve market access of small and microenterprises in the garment

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3/ Training services available on the market are geared towards individual, client-based tailoring. Larger factories train their workers in-house, but are eager to find external sources of quality training through which workers can be filtered. Existing private brokers cater only to larger enterprises, and rarely, if ever, subcontract to groups of smaller enterprises.

subsector; (ii) to support the development and delivery of quality training products which enhance SME capacity to access new markets; and (iii) to strengthen a national association which holds potential to stimulate long-term growth in the subsector.

B. Project Activities

3.2 A description of project activities follows:

1. Improved Market Access (US\$54,000 in non-reimbursable resources and a US\$50,000 non-reimbursable Guarantee Fund for Raw Materials)

3.3 Sub-contracting services are the main source of INDEPCO's revenue. The support proposed here to INDEPCO's subcontracting activities has two purposes: to strengthen INDEPCO in the short-term by making possible the hiring of qualified staff persons to identify and coordinate subcontracting activities; and to ensure that INDEPCO's subcontracting activities are managed in such a way as to build the capacity of its members to eventually bid independently for private contracts. The largest-scale government contracts which INDEPCO currently manages may never be attainable for a group of small tailor shops outside of the capital city. But by gaining experience in the process of bidding and subcontract management, these groups could improve their competitiveness enough to win smaller, private school contracts in their region. As a specific target, the project aims for at least 10 member workshops to win outside contracts in the first year, increasing to 40 in year 5. This "graduation" of small workshops to direct sub-contracting represents one of the important measures of success for this operation.

3.4 Part of the non-reimbursable resources (US\$54,000) will be used to hire a capable sub-contracting coordinator and to finance membership promotion and marketing activities. An additional US\$50,000 will be used to establish a Guarantee Fund for raw materials, accessible by INDEPCO and its members, to make possible and improve the competitiveness of their participation in private sector contracts. This fund is critical because: (i) without it INDEPCO members are unable to finance the purchase of raw materials to execute private sector contracts, which, unlike public sector contracts, do not come with raw materials included; (ii) it allows workshops to make bulk purchases of materials, resulting in cost decreases of up to 40% - 50%; and (iii) it allows the individual SMEs to begin to access credit from formal financial institutions. The principles to be used in the operations of this Fund were developed with INDEPCO and form part of the project technical files.

3.5 Although this guarantee fund would normally be processed as reimbursable funds, this operation will provide them as non-reimbursable, due to the high transaction costs for the Bank in relation to the small size of the proposed fund. This concession

is given, however, under the condition that the fund will maintain its value. The funds will be placed in a commercial bank as a guarantee for working capital loans to small workshops, and INDEPCO will cover any losses with its own funds. Project reports and evaluations will include an assessment of the fund's operation and performance.

- 3.6 The Guarantee Fund will be managed according to the following minimum guidelines: **Client Eligibility:** In order to access credit guaranteed by the fund, clients must: (i) be active members of INDEPCO in good standing; (ii) have no outstanding overdue payments on previous debts; (iii) have no previous loan defaults; (iv) present proof of a private-sector production contract, substantiated by INDEPCO; and (iv) have INDEPCO's recommendation to receive credit from the commercial bank. **Risk Sharing:** The commercial bank will share the credit risk by: (i) using the fund to guarantee up to 90% of the value of any loan or line of credit. **Exposure:** INDEPCO cannot have a loan (credit) which is guaranteed by more than 40% of the total fund's assets, and the guarantee for any individual client cannot exceed 10% of the funds assets. **Collection Incentives:** The first 10% of the losses on any bad loan will be covered by the commercial bank, after which point the losses can be covered by the guarantee fund. **Coverage of Losses:** In order to ensure maximum incentives for INDEPCO to replenish losses to the Fund: (i) if INDEPCO is delinquent in covering more than 50% of replenishment obligations to the Fund, it will not be eligible to receive additional credit guaranteed by the fund until the situation is rectified. As a possible additional measure to cover losses, the Bank will also consider having INDEPCO set aside a percentage of its own revenues as a Loan Loss Reserve (percentage to be determined) to be used to cover losses claimed by the commercial bank.

## 2. Training Services for Garment Sector SMEs (US\$86,000)

- 3.7 INDEPCO will offer two types of training services: (i) various modules of customized training to member enterprises designed to improve their productive capacity, product quality, overall performance in all aspects of the subcontracting process, and ability to successfully bid on private contracts; and (ii) formal training programs targeting the development of the productive and human resource capacity for the garment subsector as a whole. Member-focused training will include content such as: materials and accessories, special sewing techniques, improving workshop conditions, evaluating product faults and their causes, budget preparation (for bidding), and other financial management topics. Enterprises will receive constant feedback on their performance as subcontractors, and appropriate (fee-based) training modules will be arranged for enterprises wishing to improve their performance in specific areas, according to their expressed needs. The formal training courses will cover more general aspects of garment production such as: industrial sewing-machine operation, cutting,

assembly, production-line management, and sewing machine maintenance and repair. Formal training courses will also be fee-based, and will be open to micro and small enterprise employees, factory workers, and unemployed individuals wishing to obtain the necessary skills to enter the sector. INDEPCO provides training on three different kinds of machines, issues a training certificate upon course completion, and assists graduates in placement in tailor workshops or factories. INDEPCO hopes to build credibility with the large factories as a quality training provider, and in the long-term expects that these actors will offer to contribute some portion of the costs of the training, whether through sponsoring individuals or directly to INDEPCO.

### 3. Institutional strengthening (US\$137,000)

- 3.8 Institutional strengthening activities will include: continued training and development of the Board of Directors, improvement of internal financial systems and management information systems, and the purchase of equipment. Development of a medium-term strategic business plan, improved internal procedures, systems and management will be achieved through the provision of outside technical assistance, both local and international. The technical assistance program with explicit goals is presented in the Logical Framework in Annex I. The strategic plan to be developed as one of the operation's first activities will include a set of performance indicators to measure program success. These will be based on the indicators included in the technical files. INDEPCO will follow Bank policy for selection of the technical assistance providers for this component of the project.
- 3.9 It is important to note that the technical assistance to INDEPCO over the last year has shown positive results in helping INDEPCO to: (i) strengthen its financial management; (ii) install a computerized accounting and information system; (iii) establish basic internal operating procedures and regulations; (iv) take first steps to enhance institutional structure, governance and transparency; and (v) design and implement member training programs. The next stage of technical assistance will build upon these basics to reach further improvements in management and operations.

## IV. EXECUTING AGENCY AND MECHANISM

### A. Experience of executing agency

- 4.1 L'Institut National pour le Developpement et la Promotion de la Couture (INDEPCO) was founded in November 1992 as a non-profit association. INDEPCO's mission is to revitalize the Haitian garment production sector while decentralizing production opportunities from factories to micro and small enterprises. It is a national association which currently acts as a manufacturing entity which outsources to its members 100% of its production, and

also provides services which improve the capacity of its members to meet relatively rigorous outsourcing standards (quality, punctuality, volume, standardization, etc.). In Haiti, INDEPCO is the only institution which associates and coordinates the activities of SME workshops for a productive subsector at a national level.

- 4.2 The Board of INDEPCO is made up of 11 members, four of which are representatives of regional garment producers' associations from the areas of Jacmel, St. Marc, Gonaive, and Cap Haitien. The other seven are professionals, business persons and garment workshop owners. Board members also sit on one of four committees: market development, training, financial management or contract oversight. The Board recently developed a draft of their internal regulations which will serve to guide the institution's activities in the future. Among many other items, these regulations propose codes of conduct, conflict resolution measures, Board duties and participation, and criteria for sub-contracting quotas by size of member workshop, workshop conditions, performance, etc. In early 1999, INDEPCO hired its first full-time, paid executive director.
- 4.3 INDEPCO operates a subcontracting system which serves as an alternative to centralized factory production, while at the same time enhancing the skill base of the sector's workers overall. INDEPCO has experience with the intermediation, as well as the direct provision, of training and technical assistance services to tailors, both members and non-members. The association's subcontracting agreements have to date consisted mostly of large-scale contracts for school uniform assembly from government institutions. This operation will support INDEPCO's efforts to expand its target market to include private sector clients.
- 4.4 There are two principal mechanisms that INDEPCO will use in its operations. The most common mechanism is one in which INDEPCO secures and signs a contract with the government, private schools or a large garment factory to deliver many thousands of garments meeting certain standards, by a specified date. INDEPCO buys the materials in bulk, distributes them to its selected subcontracting workshops, provides any necessary training or support for production, and pays each workshop the agreed price for items delivered. The second mechanism, which will play an increasingly important role with the support of this operation, involves supporting individual members or groups of members which have secured direct contracts for smaller private school uniform or other contracts. To these members, INDEPCO supports them through the use of the guarantee fund to obtain a loan for both working capital and raw materials, and also with assistance in acquiring materials at wholesale prices or from import companies.
- 4.5 INDEPCO's assets grew from 30,225 gdes (approx. US\$2,000) in 1997 to 431,056 gdes (approx. US\$27,000) in 1998. Since INDEPCO is a subcontracting operation, its structure is extremely lean. The volume of cash flow handled by the institution over the past three

years is much greater. Table 1 presents INDEPCO's history of contracts secured since 1995, which has grown steadily in volume and value. Likewise, total revenues to INDEPCO have grown from approximately US\$90,000 in 1997, to almost US\$210,000 in 1998, and are expected to surpass US\$400,000 for 1999. To date, INDEPCO has achieved a break-even or slight losses, due to the factors explained in paragraph 4.7. However, this project will assist INDEPCO to access profitable private sector contracts, increase other revenues from training and members, and manage itself in a more efficient and entrepreneurial manner.

Table 1. INDEPCO Financial Performance

Contract	Dates	Size of Contract (# uniforms)	Size of Contract (US\$)	Financial Results (US\$)
UNDP	1995	train and organize a cooperative	\$27,000	n/a
FAES/a	1997	22,230	\$89,618	(\$1,216)
FAES	1997	40,315	\$140,697	\$678
FAES	1998	60,000	\$206,491	(\$8,375)
FAES	1999	126,000	\$437,500	none yet

/a. Fonds d'Assistance Economique et Sociale.

4.6 The five-year income statement projections prepared during project design include figures for revenues from different sources, estimated material costs and payments to subcontracting workshops, and net income, among others. These can be summarized in the following manner:

- a. Total revenues are projected to increase from US\$479,000, to US\$1,071,000, to US\$1,396,000, in years 1, 3 and 5 respectively. As part of these, public school uniform contracts will decrease in importance from 81% to 54% of total revenues between years 1 and 5, while private sector production contracts are projected to increase from 11% to 38% of total revenues.
- b. Costs for material inputs and subcontracted labor increase similarly. Material costs increase from 5% to 13% of variable costs between years 1 and 5, due to the higher quality and imported inputs in private sector contracts. Payments to subcontracting workshops increase from US\$251,000 in year 1 to over US\$730,000 in year 5, which represent the revenue to INDEPCO's members to pay labor costs for production. These additional revenues are the major direct economic benefit to the small workshops in increasing incomes and employment.
- c. MIF resources will directly off-set incremental project costs, totalling US\$195,000 in year 1 and US\$75,000 in year 2. As the mix of INDEPCO's contracts shifts toward the private sector and operations become more efficient, net income shifts from slight

losses in the first three years to earnings of US\$17,000 and US\$28,000 in years 4 and 5.

- 4.7 The financial results above illustrate several important characteristics of INDEPCO: (i) INDEPCO needs to improve its financial management, costing systems, and efficiency; (ii) INDEPCO's main goal has not been that of making a profit, rather, the institution has invested in training its members, aiming to stimulate increased efficiency and enhanced performance of its micro and small subcontractors; and (iii) INDEPCO's clients to date have been socially-oriented, line-item budgeters who do not feel comfortable with allowing INDEPCO a profit margin, nor do they recognize the need for INDEPCO to reinvest in itself. Nevertheless, once INDEPCO is able to generate net income, all of this surplus will be reinvested in providing additional training and services to its members, and to promoting the garment production subsector at a national level.
- 4.8 Both through subcontracting services and directly, INDEPCO has offered a range of training products over the past four years, establishing itself as the best-known provider of training services to the sector. Table 2 below shows INDEPCO's experience to date:

Table 2. INDEPCO Training Experience

SPONSOR	TOPIC	NUMBER OF PARTICIPANTS	DATE
UNDP	Cooperative training	n/a	1995
UNDP	Marketing training	n/a	1995
SINGER	Needle techn. & machine maintenance	120	1996
FAES	How to run a production line	50	1997
FAES	Not specified	n/a	1997
FAES	Industrial sewing & production	100 shop owners	1998
FAES	Small enterprise management	25 shop owners	1998
FAES	Sewing machine repair	many small trainings	1998
FAES	On-going technical training	80 workshops	1998
USAID-AFE	Finan. manag., costing & pricing for tailor shops; train. of trainers	8 trainers trained 30 INDEPCO members	1999

B. Membership

- 4.9 INDEPCO has a tiered membership program, with individual memberships, and members through associations and cooperatives. While the pool of potential and past members exceeds 2,500, current dues-paying members in April 1999 amounted to almost 200.

Approximately 80% of members operate workshops of 5 to 8 machines, 12% have 8 to 15 machines, and 8% over 20 machines <sup>4</sup>. Membership varies widely, increasing dramatically at times when new contracts become available. At that time, scores of members hurry to pay past-due membership fees in order to be eligible for contracts. Monthly dues range from approximately US\$6 for individual members to US\$3 for association or cooperative members. One-time subscription fees are US\$30 per association or cooperative and US\$15 per individual.

- 4.10 INDEPCO's membership can be divided into three general segments: micro and small tailors, medium-sized informal shops, and larger formal members. Micro and small tailors typically own between five and fifteen sewing machines, with three to ten full-time workers. Many of these tailors work only a few hours a day, outside of peak season (Christmas and New Year's). When a large contract order comes in, they recruit temporary labor from the community and work as many hours per day as necessary. Medium-sized shops own up to 20-30 machines, but still rely mostly on temporary labor depending on workflow. These shops are those best equipped to carry out INDEPCO's contracts; and in the medium term might be able to manage smaller contracts themselves. The larger firms are structured, offer regular employment to their workers, and are able to capture contracts on their own. These firms, however, have shown an interest in INDEPCO's training services for their employees, and would pay fees to cover real costs for any services rendered.

C. Execution and Disbursements

- 4.11 The project will be executed in 36 months, and the disbursement period will be 42 months. A revolving fund will be established for an amount equal to 20% of project resources.

D. Level of Program Preparation

- 4.12 The project is ready to begin executing immediately. The activities proposed here are complementary to, and will enhance the quality of, activities that are currently in progress.

E. Environment and Social Impact

- 4.13 Training course content will include topics related to occupational health and safety, labor conditions in general, waste and process management that improves the environment while lowering the operating costs of clients, and ways to identify and select sustainable sources of inputs and raw materials.

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4/ As an example, in the 1998 contract for 60,000 uniforms, 84 workshops participated. Of these, 94% had 20 machines or fewer, while 64% had fewer than 10 machines. The largest subcontract completed 4% of the total order, while the average subcontract was for 1% of the order.



- 4.14 Marketing activities will attempt to provide access to markets that require certification of sustainability of materials sources and of sound labor practices.
- 4.15 In the selection of suppliers of inputs, to the extent that it is possible and relevant, INDEPCO will give preference to or at least identify suppliers capable of offering assurances of environmentally sustainable sources and practices.

## V. COST AND FINANCING

### A. Costs

- 5.1 Table 3 below shows the project budget. In addition to the non-reimbursable, technical assistance funds (total of US\$320,000 MIF contribution and US\$190,000 INDEPCO contribution) the project includes a US\$50,000 Guarantee Fund (also non-reimbursable) which will be used to assist members wishing to obtain private sector contracts in purchasing raw materials. At least 50% of the INDEPCO contribution will be in cash. The cash portion of the INDEPCO contribution will come from revenues received from member dues and commissions, training courses, and production contracts.

Table 3

BUDGET ITEMS	MIF (US\$)	INDEPCO (US\$)	TOTAL (US\$)	%
<b>I. <u>SUBCONTRACTING OPERATIONS</u></b>				<b>34%</b>
1. Subcontracting coordinator	34,000	8,000	42,000	
2. Support staff (local)	--	20,000	20,000	
3. Marketing and membership promotion	20,000	6,000	26,000	
4. Rent	--	35,000	35,000	
5. Administrative Expenses	--	10,000	10,000	
6. Guarantee Fund	<u>50,000</u>			
<b>SUBTOTAL</b>	<b>104,000</b>	<b>79,000</b>	<b>183,000</b>	
<b>II. <u>TRAINING SERVICES</u></b>				<b>22%</b>
1. Training coordinator	36,000	10,000	46,000	
2. Equipment rental /a	10,000	4,000	14,000	
3. Materials	6,000	4,000	10,000	
4. Logistics and supplies	10,000	4,000	14,000	
5. Travel and per diem	10,000	6,000	16,000	
6. Local consultants	<u>14,000</u>	<u>6,000</u>	<u>20,000</u>	
<b>SUBTOTAL</b>	<b>86,000</b>	<b>34,000</b>	<b>120,000</b>	
<b>III. <u>INSTITUTIONAL STRENGTHENING</u></b>				<b>39%</b>
1. Technical assistance				
a) International	90,000	30,000	120,000	
b) Local consultants	40,000	10,000	50,000	
2. Equipment				
a) Generator	--	20,000	20,000	
b) Vehicle	--	14,000	14,000	
c) Office Equipment	<u>7,000</u>	<u>3,000</u>	<u>10,000</u>	
<b>SUBTOTAL</b>	<b>137,000</b>	<b>77,000</b>	<b>214,000</b>	
<b>V. <u>EVALUATIONS/AUDIT/CONTINGENCY</u></b>				<b>6%</b>
1. Annual Audits	15,000	0	15,000	
2. Evaluations (2)	20,000	0	20,000	
3. Contingency	8,000	0	8,000	
<b>GRAND TOTAL</b>	<b>370,000</b>	<b>190,000</b>	<b>560,000</b>	<b>100%</b>

a/ Renting space to hold training seminars outside Port-au-Prince.

## B. Sustainability

- 5.2 As an institution, INDEPCO has shown its ability to generate revenue flows which cover operating costs <sup>5</sup>. The design of the project shows strong tendencies toward becoming sustainable. The activities supported by MIF in the context of this project should be viewed as long-term investments in the development of SME participation in the subsector, as implemented through INDEPCO. Some are considered research and development activities which will make the institution more effective and competitive in the long term, thus allowing it to have a greater impact for its members (for example, institutional strengthening activities and support in developing new training products). In addition, the activities supported here are designed to provide direct benefits to INDEPCO's smaller members. For example, the decision to support the

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5/ INDEPCO charges a 6% commission on the value of all subcontracts to help cover their costs. Other revenues are generated from membership dues and training events, in addition to any margins on sales that can be included in contracts.

development of training products and their delivery in the short-term will have a direct effect on the performance of INDEPCO's smaller subcontractors. This, in turn, will improve their long-term capacity to participate in the market, generate additional revenue, and increase employment.

- 5.3 Even with a clear income-generating focus to the project, INDEPCO still faces a significant challenge in attaining long-term sustainability. This challenge is related to INDEPCO's mission to serve smaller enterprises (higher costs and narrower margins), to offer training products aiming to improve the competitiveness of the entire subsector (products with some characteristics of a public good), and by the institution's history of limited resources and therefore limited capacity to reinvest (socially-oriented clients who believe INDEPCO's profit margin should be zero). The project technical files include a five-year income statement for INDEPCO, based on realistic assumptions about expected production contracts, training service revenues, and historical data on costs. Research and development activities (costs of this MIF project) are a significant expense in the first two years which it is hoped will contribute to the institution's ability to pass on ever-increasing benefits to its members in later years. These projections indicate that the significant increase and diversification in contracts and revenue sources will help to consolidate INDEPCO's revenue base and ability to sustain its activities in the long run.

## VI. PROJECT JUSTIFICATION AND RISKS

### A. Justification

- 6.1 This project will allow the Bank to support the development of a strong, sustainable business development institution in Haiti, which, in turn will contribute to improvements in incomes and growth of small and microenterprises in the garment subsector. INDEPCO is a leader in the subsector, representing a cohesive community of small and microentrepreneurs with potential for growth. This project aims to strengthen INDEPCO so that its long-term ambitions can be made possible. The project's impact will reach beyond the institutional strengthening, service provision, and problem-solving activities described here, in order to dynamize the garment subsector of Haiti's economy, which is a source of employment and income to large numbers of small and microentrepreneurs.

### B. Risks

- 6.2 It is important that INDEPCO continue to work on clarifying the role of its Board vis-a-vis its staff and subcontractors, making sure roles are transparent and do not overlap. First, some Board members will step down and accept full-time salaried positions with the institution rather than playing double roles. Second, the technical assistance will support the preparation of complete

internal regulations which will clarify the contract allocation process, ensuring transparency and fair sub-contract allocation criteria, as well as other measures to reduce potential conflict of interest risks.

- 6.3 A second and related risk has to do with the fast pace of growth envisioned by INDEPCO, and the tendency of the institution to want to move in several directions at once. Often brimming with great ideas, the institution lacks the systems and personnel to carry out all of these ideas effectively. The development of the medium-term strategic business plan, with specific targets for performance indicators, will provide INDEPCO with the focus and guidance needed as it scales up operations. The external technical assistance component in institutional strengthening is meant to mitigate both of these risks.

## VII. PROJECT PERFORMANCE CRITERIA AND EVALUATION

### A. Monitoring

- 7.1 The Bank will monitor the program through the following instruments: (i) a **strategic business plan**, including specific annual performance indicators (based on the data developed in the project design and found in the project technical files), developed as a condition prior to the first disbursement; (ii) **annual operating plans**; (iii) **annual audits** to ensure the proper use of Bank resources; and (iv) **semi-annual reports**. The annual operating plans will be submitted one month prior to the close of each year during program execution. The audited annual financial reports will be submitted during the first 60 days of each calendar year during program execution, duly certified by a firm of independent public accountants acceptable to the Bank.
- 7.2 Project performance will be judged according to three sets of criteria: (i) Markets: the achievement of sales volume targets set by INDEPCO, which will in turn correspond directly to increased market access by small and microenterprises; (ii) Member development: impact on both member enterprises and the wider garment sector, through training, technical assistance and member recruitment; and (iii) Institutional development: progress by INDEPCO in becoming a sustainable and organized institution with efficient and effective systems for accounting, costing, and operations. Benchmarks to be used in monitoring INDEPCO's institutional progress are shown in Annex I (Logical Framework), and targets for specific performance indicators are part of the project technical files. Target volumes of operations are specified in the Projected Income Statements and desired improvements in the situation of microenterprises and the wider sector are outlined in the terms of reference and baseline study (Project Technical Files).

B. Reports

- 7.3 INDEPCO will submit semi-annual project reports to the Bank within 60 days following the close of each six-month period. The information contained in the reports is to include the details on the progress of the program, fulfillment of the operating and financial benchmarks, and information on the operations and procedures for the Guarantee Fund. Should the reports show that the program is experiencing significant problems, the Bank reserves the right to demand that corrective steps be taken to remedy the shortcomings.
- 7.4 In view of INDEPCO's past history with financial management, this project must play a role in helping INDEPCO to better manage its resources. Therefore, INDEPCO will be required to present current financial statements to the IDB on a quarterly basis. Should INDEPCO fail to do this, disbursements may be discontinued.

C. Evaluations

- 7.5 The project will have two evaluations; the intermediate evaluation after 50% of project resources have been disbursed, and a final evaluation after execution is complete. In order for these evaluations to be able to measure project impact, the project will finance a baseline data collection study prior to execution (see paragraph 8.1). The purpose of this will be to collect baseline information about INDEPCO's member firms and potential members (income levels, business size, business revenues, and other characteristics). This baseline data will allow the project evaluations to measure the progress of INDEPCO's members and also of other businesses in the sector, in improving these indicators. The same baseline data will be used to compare the situation of the businesses at the time of the final evaluation. During the final evaluation, a garment sector market study will be conducted, in order to assess the changes and trends which may result from the project. The baseline data and the terms of reference for this portion of the evaluation can be drawn from the initial market study conducted as part of the project analysis. The consultant report and terms of reference are available in the project's Technical Files.
- 7.6 In addition to the issues mentioned in paragraph 7.5, the evaluations will include: (i) an assessment of the application and use of the Internal Regulations developed in the project; (ii) the operations and effectiveness of the Guarantee Fund for Raw Materials; and (iii) the project's success in meeting the performance indicators which form part of the strategic plan.

#### VIII. SPECIAL CONTRACTUAL CONDITIONS

- 8.1 Up to the equivalent of US\$20,000 in project resources will be used to provide technical assistance to help INDEPCO carry out activities to fulfill the conditions prior to the disbursement of the remainder of the funds. These funds will be used to: (i) conduct the baseline data collection of socio-economic and business information on INDEPCO's members; (ii) facilitate the development of a medium-term strategic business plan and the first year annual operating plan; and (iii) develop a complete version of Internal Operating Regulations to be approved by the Bank.
- 8.2 Prior to the first disbursement of the remainder of the funds, INDEPCO will present to the Bank: (i) the terms of reference for consultants to be hired under the training and market access development components; (ii) the completed strategic business plan; (iii) the annual operating plan for the project's first year; and (iv) the complete version of the Internal Operating Regulations.
- 8.3 Prior to the first disbursement of the Guarantee Fund for Raw Materials, INDEPCO will present the Fund's operating procedures to the Bank's satisfaction. These procedures will be compatible with the principles developed during project design and which form part of the project technical files, and will ensure the maintenance of value of the fund.

### LOGICAL FRAMEWORK

OBJECTIVES	ACTIVITY	MILESTONES*	RESULTS/IMPACT
ACCESS CONTRACTING FUNCTIONS	1. New Business Development  2. Mgmt. of Contract Operations  3. Membership Promotion	1.1 New public school uniform contracts 1.2 New Private school uniform contract 1.3 Other new private contracts  2.1 System in place to monitor performance of subcontractors and determine needs 2.2 Costing system in place to determine optimal pricing strategies for contracts  3.1 Growing dues-paying membership	<ul style="list-style-type: none"> <li>- Increased market diversification for INDEPCO members</li> <li>- Increased sales revenue for INDEPCO</li> <li>- Increased sales revenue for members</li> <li>- Contract prices result in fair deals for subcontractors, and clients.</li> <li>- Increased INDEPCO revenue from members</li> <li>- Increased production and subcontracting capacity</li> <li>- More workshops participating in subcontracting</li> <li>- "Graduation" of workshops to direct private</li> </ul>
SERVICES DEVELOPMENT	1. Customized training to member workshops  2. Fee-based training courses for SMEs, factories, general public, etc.	1.1 Needs assessment carried out for members 1.2 Training modules developed to address felt needs, and those needed for subcontracting. 1.3 Training events offered to members 2.1 Needs assessment for potential client groups 2.2 Training events offered to sector, which increasingly cover costs.	<ul style="list-style-type: none"> <li>- Training offered in response to workshop needs</li> <li>- Member workshops improve quality, efficiency</li> <li>- Increased credibility of INDEPCO with sector</li> <li>- Improved skill level of garment producers and subcontractors</li> <li>- Increasing levels of training cost recovery for INDEPCO</li> </ul>
FUNCTIONAL STRENGTHENING	1. Development of Board of Directors  2. Strategic Planning  3. Improvement of Internal Operating Procedures & Regulations  4. Improvement in Financial Management and Management Information System	1.1 4 training sessions held with board members 1.2 4 training sessions held with board committees 1.3 >10 key issues addressed, resolved, and documented in by-laws  2.1 Baseline Study completed 2.2 Strategic Business Plan created  3.1 System and policies in place to ensure fair and efficient allocation of subcontracts 3.2 Clear policies regarding Board participation & conflict of interest  4.1 Cost accounting system in place for training and contract activities 4.2 Budgetary monitoring system in place for all contracts 4.3 At least 10 different financial reports being produced and used regularly by INDEPCO staff for management decision making 4.4 Cash flow analysis system in place	<ul style="list-style-type: none"> <li>- Board members become a dynamic and efficient</li> <li>- Board exercises effective oversight over operations</li> <li>- Board committees carry out their mandates</li> <li>- Good working relationships between Board, membership</li> <li>- Work plans established for each Board committee</li> <li>- Baseline information on membership and management</li> <li>- Strategic Plan provides focus to INDEPCO activities</li> <li>- Subcontracting process is managed efficiently and transparently resulting in increase earnings and satisfaction</li> <li>- Improved transparency and efficiency in operations</li> <li>- Accurate budgets &amp; cost estimates are established for training/contract activities resulting in efficient and service provision</li> <li>- Costs are efficiently managed resulting in savings for INDEPCO</li> <li>- Liquidity is maintained resulting in smooth operations</li> <li>- Greater benefits are able to be passed on to members</li> </ul>

See Annex 1 for details of Performance Indicators for details.

**PROPOSED RESOLUTION**

**HAITI. NON REIMBURSABLE TECHNICAL COOPERATION FOR A PROJECT  
STRENGTHENING MARKETS AND COMPETITIVENESS OF SMALL AND MICRO  
ENTERPRISES IN THE HAITIAN GARMENT SECTOR**

The Donors Committee of the Multilateral Investment Fund

**RESOLVES:**

1. That the President of the 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 «Institut National pour le Développement et la Promotion de la Couture» of the Republic of Haiti and to take such additional measures as may be pertinent for the execution of the project described in document MIF/AT- with respect to a technical cooperation for strengthening markets and the competitiveness of small and micro enterprises in the Haitian garment sector.

2. That up to the sum of US\$370,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Small Enterprise Development Facility of the Multilateral Investment Fund.

3. That the above mentioned sum is to be provided on a nonreimbursable basis.