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MULTILATERAL INVESTMENT FUND  
NOT FOR PUBLIC USE**

**REGIONAL  
(RG-M1067)**

**(GUATEMALA AND HONDURAS)**

**IMPROVING COMPETITIVENESS IN THE TEXTILE AND GARMENT INDUSTRY**

**( HO-M1014 & GU-M1016)**

**DONORS MEMORANDUM**

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## ABBREVIATIONS

AHM	Honduran Manufacturers Association [ <i>Asociación Hondureña de Maquiladores</i> ]
CAFTA	Central American Free Trade Agreement
CBI	Caribbean Basin Initiative
CESI	Committee on Environment and Social Impact
CO	Country Office
GDA	Global Development Alliance
GSP	General System of Preferences
IDB	Inter-American Development Bank
ILO	International Labor Organization
MFA	Multi-fiber Agreement
MIF	Multilateral Investment Fund
VESTEX	Apparel and Textile Industry Association [ <i>Asociación de la Industria del Vestuario y Textiles - VESTEX</i> ]

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**I. EXECUTIVE SUMMARY**

**Executing Agencies:** *Asociación de la Industria del Vestuario y Textiles (VESTEX)* in Guatemala; and the *Asociación Hondureña de Maquiladores (AHM)* in Honduras

**Beneficiaries:** Among the direct beneficiaries of the projects supported in this program are: (i) 2,000 operators and workers trained in technical skills; (ii) 1,000 operators and workers with certifications for labor skills standards developed through the program; (iii) 300 managers that benefit from improved knowledge and skills associated with labor standards and other market requirements; (iv) some 60 SMEs that benefit from improved management or certification schemes that allow them better market access; and (v) at least two different local universities will benefit from improved practical knowledge of the garment and textile sector in their respective countries and from increased interaction with universities located outside of the region.

**Financial Amounts and Sources:** Modality: Grant – Small Enterprise Development Facility (III-A)  
MIF: US\$ 1,640,000  
Local: US\$ 710,000  
TOTAL: US\$ 2,350,000

Country & executing agency	MIF	Local counterpart
Guatemala: <i>Asociación de la Industria del Vestuario y Textiles (VESTEX)</i>	770,000	330,000
Honduras: <i>Asociación Hondureña de Maquiladores (AHM)</i>	870,000	380,000
<b>TOTALS</b>	<b>1,640,000</b>	<b>710,000</b>

**Terms:** Execution Period: 36 months

Disbursement Period: 42 months

**Objectives and Description:** The general objective of the program is to strengthen export opportunities for companies in the textile and apparel sector. The purpose of the program is to enhance the capacity of the textile and garment sector through the improvement of human resource capacities and support for new business opportunities.

To achieve these objectives, the program will include the following four components: (i) Technical skills training; (ii) Strengthening of productive chains; (iii) Support compliance with market requirements; and (iv) Promotion and dissemination of project results.

**Environmental /  
Social Review:**

The Committee on Environment and Social Impact (CESI) reviewed this project document in its meeting (30-05) held on July 22, 2005, and recommended that the program consider environmental, health and safety related training (see paragraph 8.6) and that participating companies be in compliance with national laws and regulations (see paragraph 8.7).

**Special Contractual  
Conditions:**

As a condition prior to the first disbursement of the contribution of each project, the executing agency concerned must have selected the Project Director and adopted the operating regulations, according to the terms previously agreed upon with the Bank.

**Relevant Initiatives  
of other  
International  
Organizations:**

USAID, through its Global Development Alliance (GDA) is providing support to improve labor and workplace conditions in companies in the apparel and garment sector in the Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic (see paragraph 2.15). The US government had also provided support to occupational health and safety measures in the apparel and garment sector in the Central American region (see paragraph 2.14).

## II. BACKGROUND

### A. Textile and Garment Industry in Central America

- 2.1 In response to the preferential market access granted by the Caribbean Basin Initiative (CBI) and the General System of Preferences (GSP), the textile and apparel industries became by far the most dynamic industrial and export sectors in Central America and the Dominican Republic in the 1990s. Employment opportunities in the textile and apparel industry expanded significantly as countries created free trade zones and attracted foreign investors and domestic and multinational manufacturers. Hundreds of thousands of workers, predominantly young, unskilled women, flocked to the factories and assembly line plants (*maquilas*) in pursuit of steady jobs and an improved standard of living.
- 2.2 The workplace realities they faced ranged from operations run at high international labor standards to more rudimentary conditions. Garment and textile manufacturers directly generate about 450,000 jobs in over 1000 factories spread throughout the region. The garment industry accounts for between 2 to 5 percent of total employment in each country and represents a significant percent of employment in the industrial sector. Trade within textile and apparel sector in the region has expanded considerably over the last decade. The US alone imported over US\$7 billion in goods from Central American region in 2003, of which around 75% entered duty free under the Caribbean Basin Trade Protection Act (CBTPA) and GSP programs.<sup>1</sup>

### B. Changes in the textile and garment industry

- 2.3 The phase-out of the global textile and clothing quota system that went into effect on January 1, 2005, under the World Trade Organization's Agreement on Textiles and Clothing (also known as the Multifiber Agreement – MFA) means that textile and garment production will no longer be located in countries based on their guaranteed quota access to developed country markets. The quota system has until now provided many developing countries with preferential access to markets and shelter from global competition. The end of the MFA means that such quotas are no longer available, requiring producers to retain and gain markets by achieving international competitiveness.
- 2.4 The ending of the quota regime will mean that buyers will be free to source from countries and suppliers that offer the best deal in terms of price, quality, speed, risk and service. For some countries, previously restricted by quota, this is an opportunity to win greater exports. A number of sources predict increases in global welfare as a result of trade liberalization with efficient producers able to grow. However, it is also clear that in the short-term at least, many countries face major disruptions to their industries, workers and economies.

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<sup>1</sup> Office of Textiles and Apparel, International Trade Administration, U.S. Dept. of Commerce



- 2.5 As a result, it is widely expected that production locations will shift. The countries of Central America are at risk of losing their most dynamic and labor-absorbing industrial sector. The major challenge confronting these countries in this sector is the emergence of China, Vietnam, Cambodia and other Asian countries as very cost competitive producers in the textile and garment sector. Many expect that China's share of the global textile and garment market will increase to 50% or more, and that some countries may lose their textile and garment industries entirely. These fears of China flooding the world market with cheap textile exports seem well founded. In the first month after the end of all quotas on textiles and garment around the world, imports to the United States from China increased about 75%<sup>2</sup> and are expected to continue to increase over time. Guatemala and Honduras as well as other countries in the region have experienced job losses in the sector that were directly attributed to the end of the quota system causing the shifting of production to Asian countries. As a result of the sudden surge in apparel imports from China, the United States placed temporary import quotas on several apparel categories as stipulated in the agreement to admit China to the WTO. These temporary quotas, currently on cotton pants, cotton shirts and blouses and underwear, terminate in 2008.

### **C. Factors Affecting Competitiveness**

- 2.6 Several Asian economies have significant competitive advantages in the textile and garment and sector stemming from: (i) economies of scale resulting in lower overall costs; (ii) very low labor costs; and (iii) recent improvements in communication and transport infrastructure. There are a number of factors contributing to the competitiveness of the textile and garment industries in the Central American region including: (i) proximity to the US market; (ii) trade preferences; (iii) relatively well-trained workforce for basic skills; and (iv) higher standards related to labor conditions.
- 2.7 A number of factors, besides price, affect the sourcing decisions of the companies. The main criteria, cited in private sector perspective research, as influencing to sourcing decisions in the post-quota world include ability to: (i) establish long-term partnerships; (ii) be innovative and provide product and material differentiation; (iii) maintain consistently high quality; and (iv) integrate vertically, which brings time and cost savings for product development.<sup>3</sup> While price certainly remains a factor in sourcing decisions, most of the respondents indicated that these other factors were important.
- 2.8 This last factor related to vertical integration is lacking in the region due to the restrictions imposed by the MFA (see paragraph 2.3). With the end of the MFA and the passage of CAFTA, local companies have an opportunity to integrate

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<sup>2</sup> *Free of Quota, China Textiles Flood the U.S.* Financial Times (March 9, 2005).

<sup>3</sup> Vertical integration refers to incorporating suppliers and clients of large companies that can lead to improvements in efficiency and productivity and thus enhancing the competitiveness of the sector as a whole. Such integration was less attractive under the MFA due to restrictions on content that could be sourced from the same country or region.

themselves into larger company chains. The large companies are interested as a means to improve efficiency and time to market.

- 2.9 Furthermore, workplace labor, health and safety conditions were also cited as being of increasing importance when selecting suppliers and making sourcing decisions. Some respondents indicated that compliance with local laws and codes of conduct may become a key competitive advantage. Future viability of some factories, and for that matter, countries' entire industries, may part be linked intricately to their ability to demonstrate enhanced workplace conditions.
- 2.10 It is important to note that competitive advantage is not just about low wages. Quality, service and turnaround time are important, as are factors outside of the factory gate, which contribute to overall costs – these include infrastructure, availability of raw materials and corruption. Poor employment conditions are a drag on productivity, and will need to be addressed by companies seeking to upgrade. Experiences in industrialized nations, and more recently in emerging markets, demonstrate that honoring internationally recognized labor standards is good for business. Where management and labor work together to uphold standards, trust replaces conflict, labor turnover and absenteeism decline, errors decrease and quality and on-time delivery improve.

#### **D. Existing Efforts and Activities**

- 2.11 The US-Central American Free Trade Agreement (CAFTA), provides an advantage to textile and garment producers by guaranteeing the tariff-free access to the US market that previously existed under the unilateral, but more restrictive, Caribbean Basin Initiative (CBI) program. But enhancement of value-added abilities and vertical integration through productivity chain relationships is needed if the sector is to survive and possibly even grow. The restrictions of CBI were not conducive to developing many of the value added processes or extensive productivity chain partnerships. In addition, the new set of origin requirements in the CAFTA also have resulted in new conditions and limitations on the industry's ability to source inputs and processes from third countries.
- 2.12 The International Labor Organization (ILO) prepared studies of the conformity of the labor laws in each country with respect to the obligations enshrined in the ILO's 1998 Declaration on Fundamental Principles and Rights at Work. The results of the studies demonstrate the constitutions and labor laws of the countries are largely in conformity with the fundamental ILO obligations. A number of the governments have taken steps to modify or update laws and/or procedures to address the unresolved items identified in the ILO studies. But the ILO studies make clear that the larger concern in the countries necessarily involves issues of implementation and capacity – not the legal framework. CAFTA includes specific labor related elements that require that countries strictly enforce the internationally-recognized core labor rights, which include the issue of child labor. These obligations are to be enforced under a robust dispute settlement mechanism.
- 2.13 On July 13, 2004, Trade and Labor Ministers from Central American and the Dominican Republic met under the sponsorship of the Bank and established a

Working Group instructing their Viceministers to issue a report and recommendations to them on efforts to enhance the implementation and enforcement of labor standards and strengthen the labor institutions in the countries of the region. On April 5, 2005, Ministers adopted a series of recommendations presented by the Working Group aimed at enhancing implementation of labor laws and institutional capacity in the region. Among the recommendations approved by Ministers is the promotion of a culture of compliance in the region. Specifically, Ministers recommended the development and implementation of comprehensive education and training programs as well as awareness campaigns, to strengthen workers and employers' understanding and compliance with labor rights and obligations, particularly in the textile and apparel sector within free trade zones.

- 2.14 Under the Bank's coordination, CAFTA countries and major international donors have since 2005 engaged in a multi-year labor capacity-building process with a view to enhance the enforcement of labor rights and improve working conditions in Central America. To support these efforts, in 2005, the Bank committed provide some US\$10 million in non-reimbursable resources for the implementation of the CAFTA, in particular in the areas of labor, environment and institutional capacity-building.
- 2.15 In late 2004, USAID, through its Global Development Alliance (GDA) approved a US\$ 2 million grant to be managed by Development Alternatives Incorporated (DAI). The objective of this project is to implement a labor standard improvement project for the sector across the six principal countries in the region (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic). In addition, the US government also supported an earlier regional project related to occupational health and safety that helped make such improved measures widespread across the sector, obviating the need for additional concerted efforts.

## **E. Proposed Program**

- 2.16 In this context, it is critical for the countries in the region to develop and improve their comparative and competitive advantages if they are to maintain their textile and garment sectors. This proposed project intends to assist in improving competitiveness of companies in the textile and garment sector in Guatemala and Honduras.<sup>4</sup> The primary strategies for improving competitiveness include: (i) increasing productivity of the companies; (ii) assisting with the vertical

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<sup>4</sup> The two countries are included in this program due to the similar characteristics, history and size of their respective garment and textile sectors. While Costa Rica and Nicaragua also have garment and textile sectors, the sector in these two countries is distinct from the other countries. Costa Rica has a long established sector, though is a relatively small sector that is continuing to decline in size. Nicaragua, on the other hand, has a relatively new sector that is small, though growing. The expected activities in this program have been structured to best benefit countries with a more mature garment and textile and that is a significant contributor to the country's economy. The textile and garment industry association in El Salvador (CAMTEX) and the export zone association in the Dominican Republic (ADOZONA) were originally incorporated into the program, but subsequently decided to withdraw because of resource constraints.

integration of companies in the sector; and (iii) implementing international labor standards in companies.

- 2.17 Increasing productivity among the companies in this sector is important for improving competitiveness among local firms and can be an effective approach to then work with the firm in other important areas such as workplace conditions. Labor rights and working conditions, while improving, still need corrective action. The enforcement of labor laws is the responsibility of the regions' governments, but it also requires a concerted effort from firms and workers. All actors need to understand their obligations under national labor laws and international core labor standards. Managers require better awareness of the business case to ensure high labor standards; supervisors would benefit from sensitivity training and training in human resources management; and workers need education with regard to their rights and responsibilities. Performance in these two areas is key to maintain these sectors in the region.
- 2.18 Although there is the belief that consolidation will in fact improve labor standards and working conditions in some areas, unless the relationship between workers' welfare and productivity is actively addressed, these standards are likely to suffer. The project strategy is predicated on the notion that no one supplier is enough, but rather the entire industry must work together to develop a common platform for maintaining competitiveness. Thus, undertaking such efforts are expected to result in a more attractive sector in the respective countries, increasing sourcing from large company buyers.

### **III. PROJECT OBJECTIVES AND COMPONENTS**

#### **A. Objectives**

- 3.1 The general objective of the program is to strengthen export opportunities for companies in the textile and apparel sector. The purpose of the program is to the enhance the capacity of the textile and garment sector through the improvement of human resource capacities and support for new business opportunities.
- 3.2 To achieve these objectives, the program will include the following four components: (i) Technical skills training; (ii) Strengthening of productive chains; (iii) Support compliance with market requirements; and (iv) Promotion and dissemination of project results. Unless otherwise indicated, all program activities will be carried out in both Guatemala and Honduras, though the extent and exact details of the activities will vary.

#### **B. Components**

**Component I: Technical skills training (MIF US\$ 594,400; Local Counterpart US\$ 323,740)**

- 3.3 The purpose of this component is to strengthen the skills of the workforce in the apparel and garment sector to assist with increasing productivity of companies in

the sector. For this, the following activities are expected: (i) development of labor skill certification schemes; (ii) training of trainers; (iii) training of operators/workers; (iv) training of middle managers; (v) training of technical managers; and (vi) transfer of knowledge to local universities.

- 3.4 The first activity in this component is to establish the needed labor skill certification schemes for the apparel and garment sector in each country. For this, each participating executing agency will work with the skills standards organization in their respective country. In general, standards are developed through a participatory process, involving the different stakeholders to ensure consensus and a well-thought final product.
- 3.5 For the training of trainer activity, the focus will be on developing a local group of trained service providers that can then be tapped into for training and technical assistance needs among companies in the sector. Among the topics to be included are the new and existing labor skills standards in the sector as well as tools and techniques for effectively transferring know-how to interested companies.
- 3.6 The program expects to provide training to numerous workers in companies that include both operators as well as managers to improve their skills further and increase the productivity of the companies. For workers, training will include: design, embroidery, specialized wash treatments, among other aspects. For middle managers, training is expected to focus on such areas as: supervision and leadership, teamwork, statistical process controls, human resources. For technical managers, the training will center around quality control, workplace health and safety, use of technology, origin regime, among many other areas. As a result of this training, it is expected that workers skills will be improved leading to improved productivity and a reduced use of resources.
 

*Among the expected results of this component are at least 2,000 workers trained, 1,000 operators and workers with labor skill certifications developed in the program and 90 local trainers trained.*
- 3.7 As a means to improve regional competitiveness in the apparel and garment sector in the long-term, it is crucial to inculcate local universities in tools and techniques that will assist them with better training future leaders and workers in the sector. For this, the program will assist interested local universities with establishing links with other academic institutions within and outside the region to facilitate the exchange of knowledge and experiences.

**Component II: Strengthening of productive chains (MIF US\$ 455,700; Local Counterpart US\$ 46,300)**

- 3.8 This component intends to promote integration among companies by strengthening the skills and capacity within each individual firm and across productive chains. The expects to increase opportunities for local small and medium enterprises that could operate as suppliers to larger companies in the sector. For this, the following activities are expected: (i) development of a

database for regional suppliers; (ii) development of market intelligence; (iii) training in supply chain management and origin requirements; and (iv) improve quality and processes in small and medium enterprises.

- 3.9 For first two activities of this component are expected to be lead by VESTEX in Guatemala and made widely accessible among the participating entities. For the development of a sourcing database, a consultant will be contracted to collect information on companies that provide services or products in the garment and textile sector in the participating countries. This information will be fed into an on-line accessible database and updated periodically by the executing agencies for their respective countries.
- 3.10 Similarly, VESTEX will lead the development of market intelligence for the apparel and textile sector. Market intelligence will be consolidated into a database and made available to companies in the sector to improve access to crucial and timely market information. This information will be updated periodically by the executing agencies to make certain that it remains useful.
- 3.11 In each country, supply chain management courses will be offered to increase and improve the supply of technical assistance providers. A trainer of trainer scheme will be used, creating a cadre of local trainers in each country that will then be able to use their recent training to provide training to a multitude of company managers.
- 3.12 In order to help expand the role of local small and medium enterprises as suppliers in this sector, assistance will be provided in a variety of areas including total quality, Six Sigma and lean manufacturing, among others. The technical assistance offered by each project will be structured as a matching grant scheme, with each project providing up to 50% of the consultancy costs and the beneficiary SME covering the remainder.

*Among the expected results of this component are at least 60 SMEs with improved productivity and inserted into the vertical productive chains of larger enterprises and some 250 managers trained in supply chain management*

**Component III: Support compliance with market requirements (MIF US\$ 190,075; Local Counterpart US\$ 132,250)**

- 3.13 The purpose of this component is to assist strengthen companies with better understanding and complying with market requirements. This assistance will allow companies to better respond to the changing market demands that will permit them to maintain and even open access to new market opportunities. The component includes two main activities: (i) training of managers and operators in market requirements; and (ii) assistance to SMEs interested in obtaining necessary compliance certifications.
- 3.14 As a means to increase awareness and understanding of ever evolving market requirements, the project will provide training to company managers and operators that is intended to provide a complete overview of the various

*Among the expected results of this component are at least 60 SMEs certified according to international standards and some 300 managers trained in market requirements.*

requirements, including such areas as health and safety standards, environmental requirements and international labor standard certifications such as Worldwide Responsible Apparel Production (WRAP), SA8000 and others.

- 3.15 Furthering the awareness and training in the previous activity, support will be provided to SMEs interested in obtaining certifications as a means to ensure market access. The technical assistance offered by each project will be structured as a matching grant scheme, with each project providing up to 50% of the consultancy costs and the beneficiary SME covering the remainder.

**Component IV: Promotion and dissemination of the results (MIF US\$ 84,510; Local Counterpart US\$ 17,400)**

- 3.16 The purpose of this component is to promote the exchange of experiences among the participating organizations and to disseminate the results of the program. To this end, the following activities are expected: (i) promote the projects and its results; (ii) periodic meetings of participating organizations in the two countries to discuss lessons learned and promote the exchange of information; and (iii) organize and facilitate a final region-wide conference to disseminate the lessons learned and experiences resulting from the program.

- 3.17 Periodic seminars will be organized to promote each project and disseminate the results. The principal participants of these seminars are representatives of companies, industry associations, universities and government officials, among others. As an input for these seminars, project specific promotional materials will be developed and made available. In addition, project related websites will be developed to help promote and disseminate the results of the projects.

*Among the expected results of this component are at least 800 representatives of the private sector, public sector, academia and civil society made aware of the benefits and results of the program.*

- 3.18 To take advantage of lessons learned, periodic meetings will be organized for participating executing agency. These meetings will facilitate the exchange of best practices as well as sharing of market related information that affects the sector. Each executing agency will also organize a final conference to disseminate the results of their respective project.

#### **IV. EXECUTING AGENCIES AND EXECUTION MECHANISM**

##### **A. Executing Agencies**

- 4.1 The Program's Executing Agencies (EAs) will be: *Asociación de la Industria del Vestuario y Textiles* (VESTEX) in Guatemala and the *Asociación Hondureña de Maquiladores* (AHM) in Honduras. Both are non-profit organizations and will execute the projects in their respective countries under separate agreements with the Bank (i.e., two agreements will be signed). This separation will allow for flexibility by allowing each project to emphasize the different components and activities to be included in the overall program, thus permitting them to take into consideration their respective differences. The proposed execution mechanism

will also permit greater flexibility in terms of implementation, but will also benefit from certain economies of scale and the exchange of lessons learned and best practices across the two countries.

- 4.2 MIF approved a previous project with the *Asociación Hondureña de Maquiladores* (AHM) in Honduras (ATN/MH-7185-HO), which was successfully completed earlier this year. The previous project was focused on implementing technical training and occupational health and safety training in the textile sector. This regional program expects to build upon some of the training materials and lessons derived from this national project in Honduras.
- 4.3 The *Asociación de la Industria del Vestuario y Textiles* (VESTEX) in Guatemala is the lead organization for the sector in the country and was until recently, managing the quotas for the sector under the MFA. As such, it was a key actor in the sector and well regarded for the support and assistance provided to companies in the sector.

## **B. Execution Mechanism**

- 4.4 To manage each project, each executing agency (EA) will hire a Project Director, an administrative assistant, and the necessary staff, depending on the particular circumstances of the project. In each case, the Project Director will be responsible for: (i) managing project activities in accordance with the action plan; (ii) supervising the consultants hired; (iii) overseeing preparation and management of the budget, using established procedures; (iv) processing applications for disbursements of the Bank's contribution; (v) presenting administrative and technical reports to the Bank; and (vi) coordinating any actions that need to be taken with international partners and other entities working in this field. The Project Director will be supervised by the Executive Director of the EA in each country.
- 4.5 In addition, in each project, the respective national training institutes (i.e., *Instituto Nacional de Formación Profesional* – INFOP in Honduras and the *Instituto Técnico de Capacitación y Productividad* – INTECAP in Guatemala) are expected to have a key role, especially in regards to the labor competencies indicated in Component I. In addition, the national training institutes are expected to be a partial source of counterpart resources.
- 4.6 **Execution and disbursement periods.** Execution and disbursement periods of 36 and 42 months, respectively, are anticipated. For each of the projects, the Bank will establish a revolving fund not to exceed 10% of the total amount of the project. Each executing agency will submit semi-annual financial reports on the status of the revolving fund to the Bank.
- 4.7 **Procurement of goods and services.** In order to engage the services of consultants, and to procure goods and services with MIF funds, the executing agencies must comply with all Bank policies for the procurement of goods and services for the selection and hiring of consultants, as set forth in documents GN-2349-7 and GN-2350-7, respectively. A procurement plan will be updated annually for each project as specified in the Bank's procurement policies.



- 4.8 **Status of project preparation.** The design, budget, and envisaged activities have been prepared, using input from participants in the program. Moreover, each project already has a logical framework, itemized budget, and specific operating regulations for the country concerned (see Annexes IV, V, and VI, respectively, in the technical files).

## V. COST AND FINANCING

- 5.1 **Cost and financing.** The total program cost is expected to be US\$ 2,350,000, of which MIF would contribute US\$ 1,640,000 in non-reimbursable funds, and the remainder of US\$ 710,000 would be expected from counterpart resources, of which at least half would be in cash. Table 1 below provides a general breakdown of each project and their respective components. Further details regarding the program budget can be found in Annex II.

Table 1. Budget by project (in US\$)				
Components	MIF	Local Counterpart	Total	%
<b>Asociación de la Industria del Vestuario y Textiles – VESTEX (Guatemala):</b>				
Technical skills training	241,900	84,740	326,640	29.7
Strengthening of productive chains	270,700	41,300	312,000	28.4
Support compliance with market requirements	105,075	29,250	134,325	12.2
Promotion and dissemination of project results	40,010	15,400	55,410	5.0
Project administration	54,500	142,560	197,060	17.9
Evaluation	15,000	0	15,000	1.4
Financial audits	10,000	0	10,000	0.9
Contingencies	32,815	16,750	49,565	4.5
<b>Subtotal</b>	<b>770,000</b>	<b>330,000</b>	<b>1,100,000</b>	<b>100.0</b>
<b>Percentage</b>	<b>70%</b>	<b>30%</b>		
<b>Asociación Hondureña de Maquiladores— AHM (Honduras):</b>				
Technical skills training	352,500	239,000	591,500	47.3
Strengthening of productive chains	185,000	5,000	190,000	15.2
Support compliance with market requirements	85,000	103,000	188,000	15.0
Promotion and dissemination of project results	44,500	2,000	46,500	3.7
Project administration	123,000	21,000	144,000	11.5
Evaluation	40,000	0	40,000	3.2
Financial audits	6,000	9,000	15,000	1.2
Contingencies	34,000	1,000	35,000	2.8
<b>Subtotal</b>	<b>870,000</b>	<b>380,000</b>	<b>1,250,000</b>	<b>100.0</b>
<b>Percentage</b>	<b>70%</b>	<b>30%</b>		
<b>TOTAL</b>	<b>1,640,000</b>	<b>710,000</b>	<b>2,350,000</b>	
<b>Percentage</b>	<b>70%</b>	<b>30%</b>		

- 5.2 **Sustainability.** Program sustainability is predicated on the development of the appropriate labor skills standards that will help improve the productivity of the workers in the garment and textile sector. Once developed, the standards would

be available to companies throughout the sector in the two countries, and could also be readily adopted by other countries in the region. Sustainability of the program's activities and the very sector itself is also dependent on developing a sound approach to increasing the offer of complete package services to buyers outside the region to take advantage of efficiency gains and responsiveness. By increasing the range of products and services incorporated into the export products, the countries would be able to increase their value-added, thus improving the employment opportunities in the sector as well the overall sector competitiveness.

## **VI. BENEFITS AND RISKS**

### **A. Benefits**

- 6.1 This project expects to assist an important sector in the participating countries with maintaining access to markets, thereby providing employment for hundreds of thousands of workers. By improving the technical skills of the workers, the expectation is that the sector will be able to compete in the post-MFA market. Moreover, with no MFA in place, the countries are able to incorporate additional facets of the production process in the respective country, thus creating additional opportunities for local small and medium enterprises. Finally, by providing assistance in the areas of workplace health and safety and workplace conditions, the project is expected to contribute to an improved working environment for workers in the sector.

### **B. Beneficiaries**

- 6.2 Among the direct beneficiaries of the projects supported in this program are: (i) 2,000 operators and workers trained in technical skills; (ii) 1,000 operators and workers with certifications for labor skills standards developed through the program; (iii) 300 managers that benefit from improved knowledge and skills associated with labor standards and other market requirements; (iv) some 60 SMEs that benefit from improved management or certification schemes that allow them better market access; and (v) at least two different local universities will benefit from improved practical knowledge of the garment and textile sector in their respective countries and from increased interaction with universities located outside of the region.

### **C. Risks**

- 6.3 Two principal risks have been identified for this project. First, although the different participating countries have much in common in terms of factors of competitiveness associated with the garment and textile sector, there are differences that could affect the overall strategy of each country and this regional program may be less able to respond to effectively. *Mitigant:* The program was prepared with inputs from each country to ensure that the overall design reflects the reality for each country. Moreover, each participating organization has a separate and distinct project design and accompanying documents (operational manual, detailed budget, logical framework, etc.) that emphasizes the key areas of need for each country, which vary depending on the country.

- 6.4 Second, the cost advantage of lower wage countries may outweigh the advantages provide under CAFTA for many categories of apparel. This may make sustaining the industry at its current levels impossible *Mitigant*. The knowledge and technology transfer provided through this program will enhance the competitiveness of local manufactures in the region. Despite cost advantages of many Asian nations, some apparel products for the United States market will continue to be sourced from the region due to time constraints. Also, having developed significant experience manufacturing to the quality and delivery expectation of the United States market, locally owned manufactures have developed abilities that provide a strategic advantage to supply their own markets and other larger markets in the hemisphere. . Much of the training provided by this project is also applicable to other assembly businesses that may enter the region and provide employment for displaced workers.

## VII. MONITORING AND EVALUATION

- 7.1. **Monitoring.** The Bank's Country Office (CO) in each of the two countries will be responsible for supervising and monitoring the project in that country, with technical support from the project team. The EA in each country will be responsible for submitting progress reports within thirty (30) days after the completion of each semester and a final report within 30 days from the final disbursement. These reports will follow a format previously agreed with the CO and will address project activities and finances, as well as results measured in terms of the indicators and benchmarks identified in the project's logical framework. The CO will utilize these reports to monitor project implementation progress and to prepare a Project Completion Report within three months of the last disbursement.
- 7.2. **Evaluations.** The Bank will use each project's funds to hire external consultants to design the evaluation system, construct the baseline, and conduct two evaluations: a mid-term evaluation, will be prepared 18 months after the commencement of project implementation or when 50% of the resources have been committed, whichever occurs first; and a final evaluation three months after the end of the execution period or when 95% of the Bank's contribution has been disbursed. The terms of reference for these evaluations will be developed up by the Bank, with input from the different EAs. The mid-term evaluation will analyze progress and overall performance of the project, with particular attention to: (i) the specific technical training offered across each of the participating countries; (ii) the types of certifications sought by participating companies; and (iii) ability of the project to incorporate additional companies vertically in the productive chains. For the final evaluation, the consultant will take into account: (i) effectiveness of the project in strengthening productive chains in the sector; and (ii) number of workers still operating in the sector.

**During the each project's execution, the respective EA will compile supervision and project evaluation indicators. These indicators are set forth in the Logical Framework (see Annex I) and will be used by the respective CO and EA, and the MIF Office to gauge the overall impact and to assess the results. The EA will**

**provide access to all the information and documentation needed to conduct these evaluations.****VIII. ENVIRONMENTAL AND SOCIAL IMPACT**

- 8.1 Given the nature of the proposed program, adverse environmental impacts are not expected. The principle subsector that this operation intends to target is the garment industry, which has environmental impacts emanating from inefficient productive processes and techniques, mainly resulting in wasted raw materials, water and energy. The textile sector is also included in this operation, which in general has a variety of environmental impacts (depending on the exact product being manufactured) but could include impacts stemming from inadequate waste disposal systems and practices and inadequate ventilation systems for volatile compounds.
- 8.2 The program expects to have positive social impacts by improving conditions for workers in the textile and apparel sector in the participating countries including enhanced job-related health and safety improved workplace conditions and factory. Additional benefits to workers include improved manager-worker communications, increased understanding of worker rights and obligations under national labor law, access to broader skills training, information and higher quality of life for workers, families and surrounding communities. Because women comprise the majority of the textile and garment workforce, capacity-building programs will be tailored towards their needs.
- 8.3 The Committee on Environment and Social Impact (CESI) reviewed this project document in its meeting (30-05) held on July 22, 2005, and recommended the following: (i) project team analyze the child labor legislation in each participating country to ensure that it is adequate; (ii) the project document should indicate what past initiatives have been undertaken related to occupational health and safety; (iii) the program consider environmental, health and safety related training; and (iv) that participating companies be in compliance with national laws and regulations.
- 8.4 For the first point, both Guatemala and Honduras have national legislation that is in line with the ILO (see paragraph 2.12), including internationally acceptable standards related to child labor. Similarly, the international certification schemes anticipated for the program (WRAP, SA8000, etc.) also incorporate the issue of child labor.
- 8.5 For the second point, both the US government as well as the Bank have supported initiatives related to occupational health and safety measures (see paragraphs 2.15 and 4.2), which have contributed to their use among a wide set of companies in the two countries.
- 8.6 For the third point, much of the training included in Component I and the technical assistance activities in Component III are intended to cover improved production techniques, which should help mitigate any potential environmental impacts associated with inefficient processes and techniques. The activities in these same components will touch on improvements related to health and safety issues that should also contribute to improvements with any environmental impacts in the textile industry indicated above.

- 8.7** For the fourth point, as a requirement for project participation, each SME beneficiary of Components II and III will sign a declaration regarding their commitment to comply with national laws and regulations, including child labor laws.

#### **IX. SPECIAL CONTRACTUAL CONDITIONS**

- 9.1** As a condition prior to the first disbursement of the contribution of each project, the executing agency concerned must have selected the Project Director and adopted the operating regulations, according to the terms previously agreed upon with the Bank.

**REGIONAL: IMPROVING COMPETITIVENESS IN THE TEXTILE AND GARMENT INDUSTRY  
(RG-M1067 & GU-M1016)**

**LOGICAL FRAMEWORK**

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>GOAL</b>			
To strengthen export opportunities for companies in Guatemala's textile and garment sector.	Two years after project completion: <ul style="list-style-type: none"> <li>- A 10% increase in exports in the textile and garment sector in countries participating in the program.</li> <li>- A 10% increase in the value added of the exported product.</li> </ul>	Comparison of industry export levels in Guatemala based on national statistics at project start-up and one year later.	- Macroeconomic conditions do not weaken the situation in Guatemala, in the region, or in destination countries.
<b>PURPOSE</b>			
To enhance the capacity of the textile and garment sector through the improvement of human resource capacities and the identification of new business opportunities.	At project completion: <ul style="list-style-type: none"> <li>- A 10% increase in the level of productivity among participating companies.</li> <li>- A 20% increase in the number of companies in compliance with market requirements.</li> <li>- A 10% increase in the number of companies offering complete package services.</li> </ul>	<ul style="list-style-type: none"> <li>- National statistics showing the value added of exports.</li> <li>- Registry of participants trained</li> <li>- Registry of companies in the industry participating in employee training programs</li> </ul>	- Macroeconomic conditions do not weaken the situation in Guatemala, in the region, or in destination countries.
<b>COMPONENTS</b>			
1. Technical skills training	<p>At the end of the first six months of the execution period, a methodology will be available for certifying the regionally defined labor skills standards.</p> <p>At project completion:</p> <ul style="list-style-type: none"> <li>- At least 1,000 workers certified under agreed upon labor skills standards.</li> <li>- At least 4,000 workers and operators trained.</li> <li>- At least 90 local trainers trained in technical skills training.</li> </ul>	<ul style="list-style-type: none"> <li>- Report on the labor skills methodology referred to herein.</li> <li>- Registry of local consultants trained in the technical area</li> <li>- Minutes of meetings</li> </ul>	<ul style="list-style-type: none"> <li>- Entrepreneurs have an interest in participating and identifying specific needs.</li> <li>- Local consultants with basic relevant experience are interested in being trained.</li> </ul>

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
2. Strengthening of productive chains	<p>At project completion:</p> <ul style="list-style-type: none"> <li>- At least 60 SMEs with improvements in productivity reflected in lower total production costs and integration into supply chains.</li> <li>- A minimum of 250 technical and middle managers trained in supply chains.</li> <li>- A minimum of 30 trainers in Supply Chain Management.</li> <li>- A regional database updated with information on suppliers of complete package services.</li> </ul>	<ul style="list-style-type: none"> <li>- Initial, annual, and final reports from SMEs offering complete package services</li> <li>- Initial, annual, and final reports from SMEs offering services and products to large companies</li> <li>- Case studies</li> <li>- Action plans</li> <li>- Minutes of meetings</li> </ul>	<ul style="list-style-type: none"> <li>- Macroeconomic conditions in the industry at a global level do not weaken the situation of participating countries.</li> </ul>
3. Support for compliance with market requirements	<p>At project completion:</p> <ul style="list-style-type: none"> <li>- At least 60 SMEs with internationally recognized certifications or in the process of obtaining them.</li> <li>- At least 300 technical and middle managers with an awareness of market requirements.</li> </ul>	<ul style="list-style-type: none"> <li>- Registry of individual participants trained</li> <li>- Registry of companies in the sector participating in employee training.</li> </ul>	<ul style="list-style-type: none"> <li>- SMEs have the economic resources necessary for compliance with market requirements.</li> </ul>
4. Promotion and dissemination of the results	<p>At project completion:</p> <ul style="list-style-type: none"> <li>- At least 800 representatives from the public and private sectors and other organizations made aware of program results.</li> </ul>	<ul style="list-style-type: none"> <li>- Promotional material</li> <li>- Articles in the press</li> <li>- Radio or television announcements or interviews</li> <li>- Web pages on the sites of participating organizations</li> </ul>	<ul style="list-style-type: none"> <li>- Print media, radio, and television networks are interested in reporting results.</li> </ul>

**ITEMIZED BUDGET SUMMARY OF EACH PROJECT IN THE PROGRAM**

**REGIONAL: IMPROVING COMPETITIVENESS IN THE TEXTILE AND GARMENT INDUSTRY**

**(RG-M1067)**

**ASOCIACIÓN HONDUREÑA DE MAQUILADORES (AHM) – HONDURAS**

		TOTAL			
		MIF	AHM		Subtotal
			Cash	In kind	
<b>I.</b>	<b>Component 1: Technical skills training</b>	<b>352,500</b>	<b>219,000</b>	<b>20,000</b>	<b>591,500</b>
1.1	Consolidation of a certification scheme for labor skills	30,000	20,000	0	50,000
1.2	Training of trainers	37,500	0	0	37,500
1.3	Training of industry operators	0	100,000	0	100,000
1.4	Training of middle management	50,000	0	0	50,000
1.5	Training of technical management	100,000	0	0	100,000
1.6	Technology transfer to universities	100,000	15,000	15,000	130,000
1.7	Educational material (3.8)	30,000	0	0	30,000
1.8	Development of a system for registering courses given and reimbursements obtained from INFOP (3.9)	5,000	0	5,000	10,000
1.9	Training specialist in labor skill area	0	84,000	0	84,000
<b>II.</b>	<b>Component 2: Strengthening of productive chains</b>	<b>185,000</b>	<b>5,000</b>	<b>0</b>	<b>190,000</b>
2.1	Development of a database of regional suppliers (sourcing)	0	0	0	0
2.2	Development of market intelligence	10,000	0	0	10,000
2.3	Training in supply chain management	15,000	5,000	0	20,000
2.4	Technical advisory services for SMEs	160,000	0	0	160,000
<b>III.</b>	<b>Component 3: Support for compliance with market requirements</b>	<b>85,000</b>	<b>100,000</b>	<b>3,000</b>	<b>188,000</b>
3.1	Training of middle managers and operators in compliance	0	100,000	0	100,000
3.2	Technical advisory services to SMEs for obtaining compliance certifications and in areas such as industrial health and safety and environmental management.	20,000	0	0	20,000
3.4	Educational material	0	0	3,000	3,000
3.5	Training of trainers	10,000	0	0	10,000
3.6	Technical assistance	50,000	0	0	50,000
3.7	Workshop for management-level exchange on best practices (3.15)	5,000	0	0	5,000
<b>IV.</b>	<b>Component 4: Promotion, information, dissemination</b>	<b>44,500</b>	<b>0</b>	<b>2,000</b>	<b>46,500</b>
4.1	3 seminars for presenting the strategies for improving competitiveness and the training program (3.16)	22,500	0	0	22,500
4.2	Creation of a program webpage (3.18)	2,000	0	2,000	4,000
4.3	Printed material (3.18)	10,000	0	0	10,000
4.5	Final conference for disseminating results	10,000	0	0	10,000



		TOTAL			
		MIF	AHM		Subtotal
			Cash	In kind	
<b>V.</b>	<b>Project administration</b>	<b>123,000</b>	<b>21,000</b>	<b>0</b>	<b>144,000</b>
<b>VI.</b>	<b>Evaluation</b>	<b>40,000</b>	<b>0</b>	<b>0</b>	<b>40,000</b>
<b>VII.</b>	<b>Financial audits</b>	<b>6,000</b>	<b>9,000</b>	<b>0</b>	<b>15,000</b>
<b>IX.</b>	<b>Contingencies</b>	<b>34,000</b>	<b>1,000</b>	<b>0</b>	<b>35,000</b>
	<b>TOTAL</b>	<b>870,000</b>	<b>355,000</b>	<b>25,000</b>	<b>1,250,000</b>

### VESTEX – GUATEMALA

		TOTAL			
		MIF	VESTEX		Subtotal
			Cash	In kind	
	<b>Component 1: Technical skills training</b>	<b>241,900</b>	<b>51,800</b>	<b>32,940</b>	<b>326,640</b>
1.1	Development a certification scheme for labor skills	3,000	0	0	3,000
1.2	Training of trainers	12,800	4,000	0	16,800
1.3	Training of sector operators primarily in areas where there is value added	75,000	19,300	15,000	109,300
1.4	Training of middle management	37,800	10,500	7,500	55,800
1.5	Training of technical management	61,800	18,000	9,000	88,800
1.6	Knowledge transfer to universities	51,500	0	1,440	52,940
	<b>Component 2: Strengthening of productive chains</b>	<b>270,700</b>	<b>16,700</b>	<b>24,600</b>	<b>312,000</b>
2.1	Development of a database of regional suppliers (sourcing)	22,960	0	14,400	37,360
2.2	Development of market intelligence	91,740	2,160	7,200	101,100
2.3	Training in supply chain management	55,000	9,540	3,000	67,540
2.4	Technical advisory services for SMEs on total quality, Six Sigma, Lean and Agile Manufacturing, and customer service.	101,000	5,000	0	106,000
	<b>Component 3: Support for compliance with market requirements</b>	<b>105,075</b>	<b>0</b>	<b>29,250</b>	<b>134,325</b>
3.1	Training of middle managers and operators in compliance	51,075	0	15,750	66,825
3.2	Technical advisory services for SMEs for obtaining compliance certifications and in areas such as industrial health and safety and environmental management.	54,000	0	13,500	67,500
	<b>Component 4: Promotion and dissemination of results</b>	<b>40,010</b>	<b>10,000</b>	<b>5,400</b>	<b>55,410</b>
4.1	Promotion of the project and dissemination of results	29,310	0	4,800	34,110
4.2	Exchange of experiences and lessons learned at the level of participating organizations (projects)	4,800	0	600	5,400

	TOTAL			
	MIF	VESTEX		Subtotal
		Cash	In kind	
4.3 Final conference	1,800	10,000	0	11,800
4.4 Development of the baseline for each country	4,100	0	0	4,100
<b>Project administration</b>	<b>54,500</b>	<b>84,600</b>	<b>57,960</b>	<b>197,060</b>
1. Administrative personnel for the project	54,500	84,600	0	139,100
2. Institutional coordination	0	0	18,000	18,000
3. Support team	0	0	5,760	5,760
4. Other expenses	0	0	34,200	34,200
<b>Evaluation</b>	<b>30,000</b>	<b>0</b>	<b>0</b>	<b>30,000</b>
<b>Audits</b>	<b>10,000</b>	<b>0</b>	<b>0</b>	<b>10,000</b>
<b>Contingencies</b>	<b>32,815</b>	<b>16,750</b>	<b>0</b>	<b>49,565</b>
<b>Subtotal</b>	<b>785,000</b>	<b>179,850</b>	<b>150,150</b>	<b>1,115,000</b>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

PROPOSED RESOLUTION MIF/DE-\_\_\_/06

Honduras. Nonreimbursable Technical Cooperation ATN/ME-\_\_\_\_-HO  
Improving Competitiveness in the Textile and Garment Industry

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 Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with Asociación Hondureña de Maquiladores - AHM, and to take such additional measures as may be pertinent for the execution of the project proposal contained in document MIF/AT-\_\_\_ with respect to a technical cooperation for improving competitiveness in the textile and garment industry.
2. That up to the amount of US\$870,000, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the technical cooperation 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.

(Adopted on \_\_\_\_\_ 2006)

LEG/OPR/RGII/IDBDOCS#814372  
HO-M1014

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

PROPOSED RESOLUTION MIF/DE-\_\_\_/0\_

Guatemala. Nonreimbursable Technical Cooperation ATN/ME-\_\_\_\_-GU  
Improving Competitiveness in the Textile and Garment Industry

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 Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with Asociación de la Industria del Vestuario y Textiles - VESTEX, and to take such additional measures as may be pertinent for the execution of the project proposal contained in document MIF/AT-\_\_\_ with respect to a technical cooperation for improving competitiveness in the textile and garment industry.

2. That up to the amount of US\$785,000, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the technical cooperation 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.

(Adopted on \_\_\_\_\_ 200\_)

LEG/OPR/RGII/IDBDOCS#814363  
GU-M1016