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ECUADOR

**IMPROVING MICRO AND SMALL ENTERPRISE
COMPETITIVENESS IN THE APPAREL INDUSTRY**

(TC-99-02-01-9)

DONORS MEMORANDUM

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Annex I Logical framework

APPENDIXES

Proposed resolution

INFORMATION AVAILABLE IN THE SDS/MSM TECHNICAL FILES

PREPARATION:

Aide-mémoire, mission of 25 to 28 June 2001

EXECUTION:

Itemized project budget
Detailed project timetable
Project report
Project profile

ABBREVIATIONS

CU	Coordinating Unit
ICC	Institute for Apparel-Industry Competitiveness
INSOTEC	Instituto de Investigaciones Socioeconómicas y Tecnológicas [Institute for Socioeconomic and Technological Research]
ISO	International Organization for Standardization
MIF	Multilateral Investment Fund

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EXECUTIVE SUMMARY

Executing agency:	Instituto de Investigaciones Socioeconómicas y Tecnológicas [Institute for Socioeconomic and Technological Research] (INSOTEC)	
Financing:	MIF (grant, Window III-A)	US\$ 659,000
	Local counterpart:	US\$ 434,000
	Total:	US\$1,093,000
Timetable:	Execution period:	48 months
	Disbursement period:	54 months
Objectives:	<p>The project's general objective is to help make Ecuadorian micro and small apparel enterprises more competitive by improving their production efficiency, product quality and business positioning.</p> <p>The specific objective is to develop a job competencies transfer model, production norms and standards, and business opportunities for micro and small garment-making enterprises in Ecuador.</p>	
Description:	<p>The project will pursue the above objectives through three components.</p> <p>Component 1 will develop training and skills certification for the apparel industry by: (i) creating and transferring training technology to three Institutes for Apparel-Industry Competitiveness (ICCs); and (ii) training and credentialing 1,800 garment workers, 108 instructors, 400 supervisors, and 132 apparel engineers.</p> <p>Component 2 will introduce, in 108 beneficiary enterprises, apparel standards in use in the international garment trade that certify the achievement of efficiency and quality standards demanded by buyers of apparel services. This component also will implement ISO 9000 quality management standards in 20 small and mid-sized companies.</p> <p>Component 3 will publicize and encourage ventures whereby microenterprises and small businesses successfully move into the mainstream garment industry, to heighten their profile and foster business linkages between micro and small garment-making</p>	

enterprises and the rest of the apparel production chain. Three hundred enterprises will take part.

Beneficiaries: The beneficiary enterprises will include companies that produce whole garments for retailers and end-customers and those that provide partial or complete cutting, assembly, pressing and finishing services for larger companies and intermediaries.

The outcome sought by the project is higher output of products and services in participating apparel companies, diversification of their operations and sale of higher-value-added services. The measure of the components' success will be the improvement in competitiveness of the benefiting companies, looking at efficiency, quality, and business positioning gains achieved.

Environmental and social review: The Committee on Environment and Social Impact reviewed and cleared this project on 15 May 2001. All the committee's observations were taken into account in preparing this proposal.

Special contractual clauses: As a condition precedent to the first disbursement INSOTEC is to provide the following to the Bank's satisfaction: (i) a work plan for the project's activities in year 1, including semiannual quantitative and qualitative performance benchmarks and assumptions for their attainment (see paragraph 4.5); (ii) evidence that the Coordinating Unit has been set up (see paragraph 4.3); and (iii) evidence that the project Operating Regulations are in force (see paragraph 4.4).

No more than 75% of the project resources will be disbursed until INSOTEC presents evidence to the Bank that the second ICC is ready to start operations. No more than 90% of the MIF's resources will be disbursed until INSOTEC presents evidence that the third ICC is ready to start operations (see paragraph 4.6).

Exceptions to Bank policy: None.

I. COUNTRY AND PROJECT ELIGIBILITY

- 1.1 The Donors Committee declared the Republic of Ecuador eligible for all forms of Multilateral Investment Fund (MIF) financing on 7 September 1994. The operation proposed here qualifies for MIF funding under the Small Enterprise Development Facility (window III-A) inasmuch as it will help move Ecuadorian micro and small apparel businesses into the mainstream garment trade at home and internationally. The MIF Operations Programming Committee declared the project eligible on 30 April 2001.

II. BACKGROUND

A. The Ecuadorian textile and apparel industry

- 2.1 Textile and clothing manufacturing is Ecuador's second-largest industry, accounting for 14% of all businesses, 12% of jobs, 8.3% of exports and 20% of manufacturing GDP.¹ The sector is dominated by small companies clustered in the central Sierra region. An estimated 5,000 micro and small apparel companies operate in that part of the country, with a range of three to nine employees. This region also is home to 40,000-50,000 microenterprises engaged in the garment trade, employing one or two people each.² There is a potentially sizable domestic and international market for the output of these small apparel producers. With the Ecuadorian Sierra's long textile-making tradition behind them, these enterprises could offer skilled labor at low cost. Because they are small, they can operate flexibly, filling small orders with quick turnaround times and adapting to continual changes—that being a growing trend on the buyers' side.
- 2.2 However, Ecuador's micro and small garment-making businesses lack the human resources they would need to achieve high efficiency averages; they are unfamiliar with the quality standards that clients expect; and they have no opportunities for business linkages with the rest of the garment industry or end-customers. As a result, they are seldom able to achieve their competitive potential outside local, informal markets.

B. Challenges for Ecuador's micro and small apparel enterprises

- 2.3 **Job competencies.** The stock of specialized training available for micro and small apparel businesses is not up to the skills standards recognized by buyers and thus is not meeting the industry's needs. According to a recent study,³ 70% of business operators say that workers' low skills levels are one of the most serious hurdles to

¹ According to Apparel Industry International.

² INSOTEC-OAS Business Review/Assessment, May 2000.

³ Ibid, May 2000.

competitiveness. An estimated 65% of garment-making micro businesses are prepared to come up with money to upgrade their workers' skills.⁴

- 2.4 **Manufacturing norms and standards.** Another problem faced by micro and small clothing manufacturers is that they do not use norms and standards, inasmuch as they do not have the tools to measure or manage production efficiency or the quality of their products and services. This is keeping large firms from purchasing apparel services from smaller companies.
- 2.5 **International wearing-apparel standards** developed by international consultants like Kurt Salmon Associates (KSA) measure compliance with industry standards. To gauge compliance the purchaser does an evaluation using the methods developed by such consulting firms. One of the most frequently used global apparel-industry standards is **efficiency**, measured as achievement percentage. A recent review of garment-industry competitiveness and quality standards in the Ecuadorian Sierra revealed operating ratios substantially inferior to world standards.⁵
- 2.6 The **ISO 9000 standards**, developed by the International Organization for Standardization, could provide a process-quality management system for Ecuador's garment industry. The experience gained in implementing ISO 9000 standards in a number of SMEs in other sectors in Ecuador suggests that, if small apparel businesses followed these same standards, it would offer stronger assurances to middlemen and large apparel-service contractors who will know that the business has adopted an auditable and monitorable **quality** system for all production processes.
- 2.7 **Business positioning.** Larger firms and intermediaries sometimes subcontract work out to small enterprises either because they are short on production capacity or need specialized services for which they are not equipped, for instance for garment finishing. However, the small companies simply follow the specification sheets for each order. Since they have only a rudimentary knowledge of opportunities for providing new services to other companies along the business chain they are very weakly positioned and grow slowly. Publicizing the successful experiences of small companies that manage to become part of the formal garment industry and efforts to foster such mainstreaming would open up new avenues for sales of their services and for commercial partnerships all along the business chain.

C. The project

- 2.8 Ecuador's micro and small garment manufacturers are in need of a new industry-wide strategy to catch up in the areas of training, norms and standards and business

⁴ INSOTEC survey of 67 apparel companies with 4-10 employees. July 2001.

⁵ Marketing and Management Assessment. MD Confecciones, July 2000.

positioning so they can achieve their competitive potential. The project proposes to enhance the efficiency, quality and business positioning of beneficiary enterprises through apparel-industry skills transfer and certification, instilling norms and standards that satisfy buyer requirements and helping to create and tap opportunities for business linkages between micro and small apparel companies and the rest of the sector.

- 2.9 The yardstick of the project's success will be the increase in competitiveness of the targeted companies, looking at their efficiency, quality and business positioning. The specific efficiency and quality measure will be percentage achievement of international apparel-industry standards. Improvements in the companies' business positioning will be gauged by the increase and diversification of apparel services, from the sale of discrete services like assembly or finishing to production of the entire garment. This will strengthen commercial linkages between small and micro clothing manufacturers and the rest of the garment production chain.
- 2.10 The Institute for Socioeconomic and Technological Research (INSOTEC) is the ideal executing agency for this project. It has been delivering business service programs since 1994, with notable success in production technology and marketing services for micro and small garment-makers. INSOTEC is the only business-services provider for Ecuadorian micro and small enterprises that has shown itself to be financially sustainable, thanks to the caliber of its services.

III. PROGRAM OBJECTIVES, BENEFICIARIES, AND COMPONENTS

A. Objectives

- 3.1 The project's general objective is to help make Ecuadorian micro and small apparel enterprises more competitive by boosting their efficiency, improving product quality and better positioning them to sell their products and services.
- 3.2 The specific objective is to develop a model for the transfer of job competencies, production norms and standards, and business opportunities for Ecuadorian apparel-industry microenterprises and small businesses.

B. Beneficiaries

- 3.3 The project will primarily benefit micro and small garment-making enterprises that produce whole garments for end-customers and retailers as well as those that provide partial or complete cutting, assembly, pressing and finishing services for larger firms and middlemen. In addition, by virtue of the demonstration effect

sought with the project, some mid-sized companies⁶ employing 50-99 workers stand to benefit from the second component.

C. Components

- 3.4 The project is divided into three components: (i) job skills training and credentialing in the textile garment industry; (ii) implementation of apparel norms and standards; and (iii) dissemination of successful business linkage experiences and fostering of such partnerships.

1. Training and credentialing of job competencies (MIF-US\$355,000; INSOTEC-US\$216,000)

- 3.5 The object of this component is to develop in small and micro apparel enterprises the skills and competencies demanded by the mainstream garment trade. It will benefit those working for micro and small apparel businesses including supervisors, workers, instructors and engineers. This component will be implemented at three Institutes for Apparel-Industry Competitiveness (ICCs), whose mission will be to help develop a sustainable market for job skills training for the garment industry. The measure of success in training and credentialing these skills in clothing manufacturers will be improvements in production efficiency ratios and in the quality of the product ready for sale.

- 3.6 The following are the advisory and technology-transfer activities planned in this component, to be contracted for through open calls for proposals.

3.7 Transfer of training and credentialing technologies to the first ICC

- a. **Business plan.** This work will be done by specialized external consultants, to be able to review and refine the first ICC's business model, do operating-cost projections, develop an instructor and consultant hiring plan, and come up with a detailed plan for the center's operation.
- b. **ICC setup.** The ICC site and building will be readied, machinery will be purchased and classrooms equipped. The first ICC will be established in Quito because of the strength of the demand in that hub of the country's garment industry.
- c. **Selection and training of a lead team.** A lead team will be selected and trained as transferees of technology for the ICC to operate in year 2. Subsequently this team will select and train other lead teams to set up additional institutes.

⁶ This is in line with the classification used by the Government of Ecuador, whereby a microenterprise can have up to a maximum of 10 employees, a small business between 11 and 49 employees, and a mid-sized business between 50 and 99 employees.

- d. **Management information system.** This system, designed specifically for job competencies management, will include a database of students, training modules and businesses.
 - e. **Technical review.** An individual consultant will be hired to conduct a technical review of the first component upon attainment of 25% of the performance benchmarks, in order to analyze design aspects and, if necessary, take remedial action.
- 3.8 **Advisory support for operation of the first ICC and accreditation of the second and third ICCs.** Throughout year 1 of the project there will be advisory assistance for the first ICC's operation. For the transfer of know-how to the project, INSOTEC will choose two people of its own to train as activity leaders at the outset. One essential requirement is that the methodology used by the outside consultants be able to certify the job skills acquired in the first ICC in Quito and in the two other ICCs which would become operative in subsequent years. The advisory services would include establishing accreditation criteria for the second and third ICCs.
- 3.9 **Training and credentialing by the three ICCs.** Specialized technical assistance will be provided to develop a garment-industry training methodology in line with international requirements. The training modules will have final performance benchmarks that will reflect improvements attained in job competency levels. Users will be charged for these services, with an average subsidy of 30% over the four years (60% the first year, declining to 35% in year 2, 15% in year 3 and 10% in year 4). The subsidy will take the form of vouchers to stimulate a demand for training. The apparel-industry skills training and credentialing activities will target four groups: (a) 1,800 garment workers, (b) 108 instructors, (c) 400 supervisors, and (d) 132 engineers. After gaining certification, some of the engineers will work as outside advisors and consultants on apparel-manufacturing norms and standards.
- 2. Implementation of norms and standards (MIF-US\$166,000; INSOTEC-US\$6,000)**
- 3.10 The object of this component is to improve efficiency and quality in Ecuador's apparel industry by introducing ISO 9000 quality-management standards.
- 3.11 The beneficiaries standing to gain from the introduction of apparel-industry standards are 108 legally established micro and small enterprises committed to purchasing standards-related services. A model for implementing the standards will be adapted with assistance from external consultants, and the standards will be implemented with assistance from individual consultants. The measure of success in implementing the above-mentioned standards will be the improvement in indicators for the standards identified in the initial diagnosis.

3.12 The beneficiaries of the adoption of ISO 9000 standards will be 20 small and mid-sized companies that have attained high standards,⁷ have a quality management officer on staff, and are committed to tying ISO 9000 implementation to competitiveness goals. The measure of successful ISO 9000 implementation will be the passing of pre-audits, which will provide evidence that the standard has been implemented.

3.13 The following activities are slated for funding under component 2:

a. Compliance with international standards

- (i) **External advisory support to instill best practices in norms and standards.** This includes technical assistance from external experts and viewing of other projects by the administrators of the project proposed here.
- (ii) **Design of diagnostic and implementation models.** This activity consists of devising a diagnostic model to be applied to each business to ascertain its conformity with the pertinent world standards and developing an implementation model.
- (iii) **Implementation of world garment-making standards.** The engineers trained and credentialed in component 1 will implement standards at the beneficiary companies in such areas as product development time, overhead percentage, reorder time, efficiency, defective-product returns, use of time, fabric and machinery, variable compliance percentage and workplace quality standards. It will cost about US\$3,000 total to implement the standards. The project will provide cofinancing through matching grants with a 50% subsidy in year 1 and a 25% average subsidy over the life of the project.

⁷ For instance, efficiency between 60% and 80%.

- b. **ISO 9000 implementation.** Each standard will be implemented by consultants hired by the respective micro or small enterprise. The consultants will be independent, are to have ISO 9000 experience, and are to be credentialed as garment-industry standards engineers by an ICC. A sizeable group of individual consultants and firms has been trained over the past two years in Ecuador and could participate in the project. Implementation would have an average cost of US\$8,000 and would culminate in a pre-audit to verify the company's readiness to obtain ISO 9000 certification. The project will provide cofinancing through matching grants, with a 50% subsidy in year 1 and a 25% average subsidy over the life of the project.

3. Publicizing and fostering business partnerships (MIF-US\$62,000; INSOTEC-US\$63,000)

- 3.14 The aim of component 3 is to link participating enterprises with the rest of the industry, especially large companies that subcontract out part of the production, machinery and fabric suppliers, intermediaries, and merchants. It will complement the improvements achieved through components 1 and 2 by disseminating and promoting them in the garment industry. This would encourage other small enterprises to join the project and inspire other agents in the production chain to build commercial ties with beneficiary businesses.
- 3.15 Component 3 beneficiaries will be 300 micro and small apparel enterprises. The component's success will be gauged by the increase in new business opportunities identified for beneficiaries, such as subcontracting arrangements between industry actors, opening of new sales channels, distribution agreements, formation of sales networks for complementary product lines, and creation of raw-materials buyers' groups. To encourage companies to take part in these activities they will be offered a 33% subsidy to help defray the cost of the events to be carried out.
- 3.16 The following are the planned component 3 activities.
 - a. **Dissemination.** (i) **Seminars.** Four seminars will be organized to inform about successful job-skills training experiences and adoption of norms and standards by project companies; (ii) **Internet system installation.** This includes design of a demand and trends section on the Web page that INSOTEC is constructing (www.textilesyconfecciones.com); and (iii) **fashion-design events to foster creativity.** Four fashion shows will be organized to publicize the products and services of micro and small apparel businesses.
 - b. **Promotion.** (i) **Fostering best practices in the delivery of apparel services by small enterprises to large companies.** This includes: (a) internships for small-business operators in textile companies to learn the best technologies for

raw-material use and trends in fabrics, styles and colors, and (b) internships in apparel companies to learn about production organization, applying norms and standards, and use of skilled personnel. There will be 18 such internships; (ii) **On-line roster**. The aim is to expedite and encourage contracting and subcontracting in the textile and garment-making chain and to connect small apparel enterprises to other segments along the business chain. Two types of roster will be created and maintained: (a) a roster of workers/supervisors/engineers trained in component 1 and companies securing certification in component 2, and (b) a roster of general suppliers, buyers, marketers, machinery and packaging vendors, and external consultants classified by regional cluster; and (iii) **Trade shows and business matchmaker events**. The plan is to organize matchmaker events to put together buyers and vendors, as well as trade fairs to link micro and small apparel enterprises to firms that can market or sell their output, opening the way to agreements for the purchase and sale of products, raw materials, and services (contracting-subcontracting).

IV. PROJECT IMPLEMENTATION

A. Executing agency

- 4.1 The project's executing agency will be Instituto de Investigaciones Socioeconómicas y Tecnológicas [Institute for Socioeconomic and Technological Research] (INSOTEC), an Ecuadorian private nonprofit foundation set up in 1980 by a group of businesspeople and researchers. INSOTEC's mandate is to help advance Ecuadorian industry, with a particular focus on strengthening microenterprise and the small and mid-sized business sector. INSOTEC has been recognized as the best institution for business development services in the region.⁸ Over 95% of its revenue comes from business operators, covering interest on loans, fees for business services, courses, marketing margins, production services, business events, and trade fairs.
- 4.2 INSOTEC will be the agency responsible for this project inasmuch as it has demonstrated its capacity to serve successfully the garment-making sector, specifically in: (i) fabric marketing services for 1,100 micro and small apparel enterprises; (ii) garment-making training delivered to 300 people; (iii) dissemination of business information through a bulletin sent to 300 micro and small enterprises; (iv) business relations maintained with 50 textile mills that in turn work with some 500 clothing manufacturers; (v) organization of fashion shows and showrooms with suppliers, and (vi) technical assistance to companies in this sector.

⁸ At the Second Inter-American Microenterprise Forum, organized by the IDB in Buenos Aires in June 1999.

B. Execution

- 4.3 A **Coordinating Unit (CU)** will be set up within INSOTEC for the project's execution. This unit will coordinate and manage project activities, monitor the project and handle the budget, adhering to preestablished procedures. It will be accountable to and produce administrative and technical reports for the Bank and INSOTEC management. The CU will be staffed by a project manager, an account executive to operate the business phase with the benefiting microenterprises and small businesses, a secretary, and accounting and administrative support personnel furnished by the respective INSOTEC departments.
- 4.4 The CU will implement the project in accordance with the Operating Regulations, which are to be in full force and effect as a condition precedent to the first disbursement. These regulations, which are contained in the project's technical files, explain the methodology and the arrangements for using vouchers and matching grants, bearing in mind best international practices for the development of sustainable markets for training services, such as gradual decrease in the percentage of subsidy of the vouchers and the requirement of always requiring a copayment by beneficiaries.
- 4.5 The Coordinating Unit's general mission is to administer the project, under the project manager's leadership, and help coordinate and interface initiatives and requirements between the training institutes themselves, board members, micro and small apparel enterprises that are the project's clients, external consultants and consulting agencies, and others who will be providing support for the project. The CU's specific tasks are to: (i) administer the project funds in accordance with the operating regulations and Bank policies and procedures; (ii) draw up work plans; (iii) track objectives and actions; (iv) stay in close contact with apparel enterprises through trade associations and directly with companies (direct participants and others considered relevant in the process); (v) develop close relations with training and development centers that join the system as of year 2 and become ICCs, and (vi) tighten ties and coordinate activities with agencies and companies that manage programs and perform related activities in the area of job skills, norms and standards and promotion of production linkages. The CU also will draw up a work plan for the project's year 1 activities, including semiannual benchmarks against which performance can be measured in quantitative and qualitative terms.
- 4.6 The first component will be implemented in all three ICCs. INSOTEC will manage the first ICC through the project's Coordinating Unit. That institute's core function will be training and credentialing of instructors, workers, supervisors and engineers by reference to internationally accepted competency standards. The second and third ICCs will operate with the same objectives from year 2 and 3 of the project respectively, once the Coordinating Unit has accredited them. Given the additional investment outlay required to set up the ICCs, INSOTEC will bring in other institutions as partners for outfitting the second and third ICCs. The partners will

provide premises, infrastructure, and management of the ICCs, and INSOTEC will transfer to them competency training and credentialing technologies and training vouchers. INSOTEC will be responsible for attainment of the performance benchmarks for training provided by the second and third ICCs. No more than 75% of the project resources will be disbursed until INSOTEC presents evidence to the Bank that the second ICC is ready to go into operation. No more than 90% of the MIF resources will be disbursed until INSOTEC presents evidence that the third ICC is ready to go into operation.

- 4.7 For implementation of the second component, the project will use consultants who are specialized in standards and norms but who must compete openly to be hired by the beneficiary companies. Unlike other MIF operations that promote national and multisectoral quality management systems, this component will seek to implement ISO 9000 and garment-industry standards in a select group of industry companies so as to create a demonstration effect for companies in the sector. The experiment's favorable outcome will show the rest of the micro and small businesses participating in the project, by way of concrete experience, the importance of complying with quality standards in order to compete on international markets.

C. Project readiness

- 4.8 The project has been designed and its budget and activities have been prepared with input from project stakeholders, with the Bank's team assisting. The availability of local counterpart monetary and in-kind resources has been negotiated. As of mid-September 2001, the presentation of this document to the Management Review Committee the project has final versions of the itemized budget, beneficiaries by component and activity, timetable of activities, and Operating Regulations including criteria for selecting enterprises to take part and the use of vouchers and matching grants. INSOTEC has decided that the first ICC will be located in Quito and the ICC setup process is ready to begin.

D. Accounting and audits

- 4.9 INSOTEC is to keep complete and accurate internal accounts and exercise financial control over the project funds. The accounting system will be organized so as to furnish the necessary documentation, permit verification of transactions and facilitate the timely production of financial statements and reports. The project files are to be set up to identify monies received from the various sources, compile reports on project funds expended in accordance with the Bank-approved chart of accounts, distinguishing between MIF contributions and funds from other sources; and provide sufficient detail to identify goods purchased and services commissioned as well as the use to which goods and services were put. INSOTEC will open separate bank accounts to manage the MIF grant proceeds and the local counterpart funds. It will process disbursement requests and associated expense vouchers following Bank disbursement procedures, and will send the Bank the final

financial statement audited by an independent firm acceptable to the Bank as well as semiannual financial reports on the status of the revolving fund.

- 4.10 Goods and services, including consulting services required for the project's execution, will be contracted for in accordance with Bank and MIF procurement policies and procedures.

V. COST AND FUNDING

A. Cost

- 5.1 The proposed project will run for 48 months. The disbursement period will be 54 months. The MIF will furnish a grant of US\$659,000 equivalent (60% of the total US\$1,093,000 budget); INSOTEC will contribute the US\$434,000 balance (40%). The following table summarizes the project's main expenditure items by funding source.

Budget (U.S. dollars)

Component	MIF	INSOTEC	Total
Training and credentialing of job skills	355,000	216,000	571,000
1. Consulting services and technical assistance	86,000	50,400	136,400
2. Machinery and software	6,000	82,600	88,600
3. Training	239,000	71,000	310,000
Implementation of standards and norms	166,000	6,000	172,000
1. Consulting services and technical assistance	136,000	6,000	142,000
2. Training	30,000	0	30,000
Dissemination and promotion of business linkages	62,000	63,000	125,000
1. Events and fairs	48,972	53,552	102,524
2. Procurement, installation, and maintenance of software	1,028	3,448	4,476
3. Dissemination and promotion expenses	12,000	6,000	18,000
Administration and evaluation	76,000	149,000	225,000
1. Consulting services and administration	0	149,000	149,000
2. Evaluations and audits	45,000	0	45,000
3. Contingencies	31,000	0	31,000
TOTAL	659,000	434,000	1,093,000
Percentage	60%	40%	100%

B. Sustainability

- 5.2 The funding approaches chosen for the project will help ensure its financial sustainability by gradually lowering subsidies. The component 1 subsidies (vouchers) will decline from a year 1 maximum of 60% of the cost to 35%, then 15%, then 10% in year 4. The matching-grant subsidies in component 2 will be 50%, 30%, 15% and 10% over the four-year life of the project. After calculating the project's aggregate revenues and costs it has been projected that total revenues and IDB-MIF financing will exceed costs by roughly \$10,000. This attests to the project's financial sustainability.
- 5.3 The project activities offered by ICCs will continue to be sustainable after the project ends. Moreover, the number of micro and small enterprises demanding continual human resources training and credentialing will increase considerably, as will their demand for apparel norms and standards implementation. All this will help assure the sustainability of a competitive apparel-service provider industry bolstered by the project activities.

VI. RATIONALE AND RISKS

A. Rationale

- 6.1 The proposed project is warranted because it will help: (i) expedite access to information and resources available in the three components, benefiting micro and small apparel enterprises; (ii) develop a group of Ecuadorian professionals trained as instructors to meet core skills training needs in the country's apparel industry; (iii) provide technical and financial assistance to businesses to bring in world apparel standards and ISO 9000 quality standards; (iv) integrate micro and small apparel enterprises that are part of the textile and apparel cluster vertically and horizontally with suppliers and with service, supply and support industries to work together to develop competitive advantages; and (v) create a sustainable, replicable model of Institutes for Apparel-Industry Competitiveness throughout Ecuador.
- 6.2 The project components also match core activities identified by the Working Group on MIF Strategy, namely small-business quality management (components 1 and 2) and innovation partnerships (component 3).

B. Risks

- 6.3 The main risk in this project is that demand for the planned services might be lighter than anticipated. Though INSOTEC has a huge client database and proof of demand for training and standards-implementation services, there is a chance that actual demand for the services might fall short of forecasts. The risk resides in the project's innovative nature and the close interface of activities in the three components in pursuit of a sustainable, replicable model. To counter this risk, the project will grant subsidies (in the form of vouchers and matching grants) to spur demand for services under components 1 and 2 and it will disseminate successful project experiences under component 3.
- 6.4 A second risk has to do with users' ability to pay for services. Subsidies, sales margins and prices were arrived at by reference to an average apparel company's ability to pay for these competitive, market-based services, but apparel businesses who want the services might decide not to take part in this project because of potential financial constraints. INSOTEC will continually monitor this concern as the project is implemented, in order to ensure that the prices for project services are in line with the beneficiary companies' financial means.

VII. EVALUATION AND MONITORING

A. Reports

- 7.1 INSOTEC will produce semiannual progress reports documenting activities for the previous six months. A work plan and disbursement timetable for the following period will be drawn up by reference to indicators in the project's Logical Framework (see Annex I). The reports are to be presented to the Bank's Country Office for approval within 60 days after the end of each six-month period. The Country Office will send a report to the MIF three months after the project ends, describing its outcomes.

B. Evaluations

- 7.2 When at least 50% of the MIF funds have been disbursed or at the midpoint of the 24-month implementation period the Bank will engage a consultant, paid for with project funds, for an independent midterm review of the project's results. The evaluation will examine progress on the project to date, especially the startup of the second and third ICCs, referencing the performance benchmarks, and will recommend any necessary adjustments to the design or targets. As well, an independent final evaluation will be performed at the end of the project, looking at its impact on the beneficiaries and participants by reference to the Logical Framework benchmarks, other project performance indicators and the sustainability of the services in question.

VIII. SPECIAL CONDITIONS

- 8.1 As a condition precedent to the first disbursement INSOTEC is to present the following to the Bank's satisfaction: (i) a work plan for project activities in year 1, including semiannual benchmarks against which to measure performance in quantitative and qualitative terms and assumptions for achieving these indicators (see paragraph 4.5); (ii) evidence that the Coordinating Unit has been set up (see paragraph 4.3); and (iii) evidence that the Operating Regulations are in force (see paragraph 4.4).
- 8.2 No more than 75% of the project resources will be disbursed until INSOTEC presents evidence to the Bank that the second ICC is ready to go into operation. No more than 90% of the MIF resources will be disbursed until INSOTEC presents evidence that the third ICC is ready to go into operation (see paragraph 4.6).

IX. EXCEPTIONS TO BANK POLICY

- 9.1 No exceptions are envisaged.

LOGICAL FRAMEWORK

TC-99-02-01-9

IMPROVING MICRO AND SMALL ENTERPRISE COMPETITIVENESS IN THE APPAREL INDUSTRY

Objective Summary of Objectives	Indicators	Means of Verification	Assumptions
<p>Help make Ecuadorian micro and small enterprises more competitive by improving their production efficiency, product quality and business positioning.</p>	<ul style="list-style-type: none"> ▪ Increase in exports of Ecuadorian-made garments. ▪ Increase in number of apparel enterprises in the formal economy. ▪ Increase in employment in the sector. 	<ul style="list-style-type: none"> ▪ Use benchmarking based on data from the business diagnostic tool (IDE) currently in place at INSOTEC and measure the same indicators after the project's four-year execution period. ▪ Reports and national and global statistics. 	
<p>Develop a job competencies transfer program, production norms and standards, business opportunities for micro and garment-making enterprises in the sector.</p>	<p>Efficiency, Quality and Business Positioning</p> <ul style="list-style-type: none"> ▪ Participating companies improve productivity according to indicators established in global standards, as follows: <ol style="list-style-type: none"> 1. Efficiency: 60% 2. Annual profits: 20%-30% 3. Production development: 3 months 4. Reorder service to clients: 5 days 5. Total quality: 5%-10% 	<ul style="list-style-type: none"> ▪ Benchmarking based on IDE, but limited to companies participating in the project. ▪ Quantitative and qualitative survey assessing whether micro and small businesses in the sector are aware of the need to invest in credentialing job competencies, standardization and the relationship with other actors in the textile and apparel industry. 	<ul style="list-style-type: none"> ▪ That there will be no drastic increase in textile raw materials. ▪ That macroeconomic and social stability will be maintained. ▪ That Ecuador will maintain the dollarization regime and that there is peace.

Active Summary of Objectives	Indicators	Means of Verification	Assumptions
Components			
Competencies for the apparel sector developed and executed.	<ul style="list-style-type: none"> ▪ (a) 1,800 workers; (b) 108 instructors; (c) 400 supervisors; and (d) 132 engineers trained and certified for their job competencies. ▪ Quito ICC has capacity to certify other ICCs. ▪ Participants (companies or individuals) pay for implementation. 	<ul style="list-style-type: none"> ▪ Diplomas issued ▪ Semiannual and annual reports from INSOTEC to the Bank ▪ Midterm evaluation ▪ Final evaluation 	<ul style="list-style-type: none"> ▪ Large companies recognize the job competency certification issued by project.
Apparel-sector norms and standards implemented.	<ul style="list-style-type: none"> ▪ 108 companies have adopted global standards. ▪ 20 companies found to be in full compliance with ISO 9000 standards by the pre-audit. ▪ Participating companies pay full cost of implementation at end of project. 	<ul style="list-style-type: none"> ▪ Diagnostic studies with the results in each of the global standard indicators ▪ Pre-audit reports ▪ Semiannual and annual reports from INSOTEC to the Bank ▪ Midterm evaluation ▪ Final evaluation 	<ul style="list-style-type: none"> ▪ Pursuant to execution of component other companies understand the benefits of the norms and standards, and seek technical assistance from the consultants.
Elimination and promotion of successful experiences by micro and small apparel enterprises.	<ul style="list-style-type: none"> ▪ 300 companies participating actively in the production chain locally and nationally. ▪ At least 50% of participating companies obtain a business opportunity through activities under the component. 	<ul style="list-style-type: none"> ▪ Semiannual and annual reports from INSOTEC to the Bank ▪ Midterm evaluation ▪ Final evaluation ▪ Surveys of participating companies 	<ul style="list-style-type: none"> ▪ There are large and/or international companies interested in forming partnerships with SME apparel enterprises.
Component 1 Business plan Set-up of ICC Promotion, selection and awareness-raising Management information system (SIG) Promotional activities to attract students Advisory services for ICC set-up Training of selected workers Training of selected instructors Training of selected supervisors Training of selected engineers	Budget: MIF Component 1 US\$355,000 Component 2 US\$166,000 Component 3 US\$62,000 Executing unit 0 Evaluation US\$20,000 Audit US\$25,000 Contingencies US\$31,000 Total US\$659,000	<ul style="list-style-type: none"> ▪ Semiannual and annual reports from INSOTEC to the Bank (ex ante and ex post, generated by SIG). ▪ Midterm evaluation. ▪ Final evaluation. ▪ Completion of external advisory services and preparation of reports. ▪ Inspection visits. 	<ul style="list-style-type: none"> ▪ There are enough professionals in the country to specialize in apparel training in specializing in apparel training training centers available to send instructors to the training courses. ▪ Companies are willing to pay fee for training. ▪ Support from the municipality, trade associations, labor organizations and private/public training institutions

ative Summary of Objectives	Indicators	Means of Verification	Assumptions
ent 2 gn of diagnostic/monitoring model for ementation of standards and norms tion of world garment-industry ards ementation of ISO 9000 standards nal advisory services and knowledge st practices	INSOTEC Component 1 US\$216,000 Component 2 US\$6,000 Component 3 US\$63,000 Executing unit US\$149,000 Evaluation 0 Audit 0 Contingencies 0 Total US\$434,000	<ul style="list-style-type: none"> Semiannual and annual reports from INSOTEC to the Bank (ex ante and ex post, generated by SIG). Midterm evaluation. Final evaluation final. Inspection visits. 	<ul style="list-style-type: none"> Demand for the standards and norms remains stable. Support from trade associations, universities and standardization/quality organizations.
ent 3 tion of best practices Seminar Internships gn events puter-based log net system ness meetings and shows		<ul style="list-style-type: none"> Semiannual and annual reports from INSOTEC to the Bank (ex ante and ex post, generated by SIG). Midterm evaluation. Final evaluation. Inspection visits. 	<ul style="list-style-type: none"> Apparel businesses are willing to participate in a business chain. Sponsoring companies are interested able to defray a third of the costs. Support from producer and trade associations that represent service providers.

PROPOSED RESOLUTION

ECUADOR. NONREIMBURSABLE TECHNICAL COOPERATION FOR IMPROVING
MICRO AND SMALL CLOTHING COMPETITIVENESS IN THE APPAREL

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Instituto de Investigaciones Socioeconómicas y Tecnológicas, of the Republic of Ecuador, and to take such additional measures for the execution of the donors memorandum referred to in Document MIF/AT-_____ with respect to a technical cooperation for improving micro and small clothing competitiveness in the apparel.
2. That up to the amount of US\$659,000, 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.