



## Building garment industry productivity and competitiveness in Cambodia

Cambodia's garment industry, the country's largest export industry, provides livelihoods for a great many poorer people, the majority of whom are women. Worth over \$2 billion in export earnings, the industry employs more than 325,000 workers. If you count the extended family members garment workers support, more than 1.5 million Cambodians are dependent on the garment industry. Although prospects for the industry looked bleak at the end of 2004 when favorable quotas granted by the United States ended, by mid 2005, re-introduction of quotas by the US and the European Union allowed the Cambodian industry to continue growing.

But help provided by the quotas is only short term. For the garment industry to survive in the longer term, Cambodia must act now to strengthen industry competitiveness. To help the country remain a winner in the post-Multifiber Arrangement era, the International Finance Corporation's Mekong Private Sector Development Facility (IFC-MPDF) is assisting the industry through various initiatives. These include building middle management capacity, promoting sustainable practices (good labor, environmental and social practices) and enhancing dialogue and information flow among industry stakeholders. These all contribute to improving productivity, which in turn impacts competitiveness.

In carrying out its work in Cambodia, IFC-MPDF collaborates with partners that are well-regarded by the industry, provide services to a large number of beneficiaries, and have a long-term future. IFC-MPDF also achieves economies of scale by replicating successful initiatives from its Vietnam garment sector program to Cambodia and vice versa.

### Sustaining *Better Factories Cambodia*

Cambodia has earned a good reputation internationally for its responsible labor practices in the garment sector. In December 2004, a World Bank Group survey of more than half of Cambodia's garment buyers found that adherence to labor laws was the major reason why buyers continue to purchase from Cambodia. Maintaining this good record is crucial for the ongoing success and growth of the garment sector.

Credit for improving labor standards goes largely to *Better Factories Cambodia* (BFC), an International Labour Organization (ILO) initiative that has been monitoring and reporting on labor standards since 2001.

ADB



Australia



Canada



Finland



IFC



Ireland



Japan



Netherlands



New Zealand



Norway



Sweden



Switzerland



United Kingdom



To help *Better Factories Cambodia* (BFC) sustain itself after ILO funding ends in 2009, ILO has asked IFC-MPDF for technical assistance. Based on the Facility's extensive experience in institution building and helping donor-funded enterprises to become self-sustaining businesses, assistance will include identifying the most appropriate institutional model and governance structure for BFC, developing business and financing plans and training BFC staff in financial and human resources management. IFC-MPDF will also advise key industry stakeholders in how to lend their support to ensure BFC's long-term sustainability. The project will also explore ways to replicate BFC's innovative information management system for monitoring working conditions to other industries and other countries.

### Establishing an international buyers' forum

On-going commitment of buyers to source garments from Cambodia is crucial for the survival and growth of the country's garment industry. To contribute to this, IFC-MPDF is working with ILO to support a mechanism that consults with international buyers. Initially set up as a venue to discuss the monitoring work of ILO-*Better Factories Cambodia*, the Buyers' Forum has evolved into an ongoing mechanism. Objectives now include helping buyers to speak to other stakeholders with one voice and promoting Cambodia to other garment buyers based on the country's good record on labor standards. The Forum is also considering sponsorship of industry capacity development and other initiatives.

A group of about 20 international buyers, including Gap Inc., Nike, Levi Strauss, Disney, Wal-Mart and Sears Holdings have been participating in the Forum. Mechanisms for consultation include twice-yearly meetings (one in Phnom Penh in December, and another in June at a location closer to buyers), and quarterly conference calls.

### Developing an industry training strategy

In partnership with ILO's *Better Factories Cambodia* and the USAID Garment Industry Productivity Center, IFC-MPDF is working on the development of an industry-wide training strategy. This will cover vocational, management and technical training – all of which are essential for meeting immediate and long-term needs of the industry. The proposed framework will promote collaboration, flexibility and draw on the combine resources of all the stakeholders who each have a unique perspective to contribute. In the course of developing the strategy, the partners will provide stakeholders with the tools they need to identify and prioritize their training needs. An IFC-MPDF funded expert will help facilitate stakeholder consultation and the provision of training by qualified local providers.

### The Mekong Private Sector Development Facility (IFC-MPDF – [www.mpdf.org](http://www.mpdf.org))

IFC-MPDF is a multi-donor funded initiative set up by the International Finance Corporation in 1997 in Vietnam, Cambodia, and Lao PDR, to reduce poverty through sustainable private sector development. The Facility works through six interrelated programs that seek to improve the business environment; develop the financial sector; improve managerial capacity; and increase sustainable business practices in three sectors that are central to economic growth and poverty reduction – tourism, agribusiness, and garments. IFC-MPDF's donors are the Asian Development Bank, Australia, Canada, Finland, IFC, Ireland, Japan, New Zealand, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom.



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