



Evaluation Summaries

Better Factories: Cambodia External Mid Term Evaluation

Quick Facts

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Background & Context

The expected outcome of the Better Factories Cambodia (BFC) multi donor programme (comprised of 11 donors and TC project budgets) is to improve working conditions in factories in the garment industry through monitoring and documenting compliance with national labour law and ILS and through remedial training and capacity building of workers and employer organizations

The BFC that started in 2001 benefits workers, employers and their organizations as well as consumers in Western countries while helping reduce poverty in the country. It does this by monitoring and reporting on working

conditions in Cambodian garment factories according to national and international standards, by helping factories to improve working conditions and productivity, and by working with the Government and international buyers to ensure a rigorous and transparent cycle of improvement. The project grew out of a trade agreement between the US and Cambodia. Under the agreement the US promised Cambodia better access to US markets in exchange for improved working conditions in the garment sector.

Evaluation findings and Recommendations

Political

- Much progress has been made over the last decade in creating political stability and a climate conducive to market-based economic growth.
- The political system remains authoritarian and the institutions of governance continue to be largely under funded and weak.
- The CPP has consolidated its position as the ruling party in the 2008 elections. It now remains to be seen whether it will use that position to strengthen public institutions and allow greater public participation in the governance process, or will focus on maintaining its position simply by resorting to authoritarian tactics.

Economic

- From 2000 to 2006, Cambodia averaged compound economic growth of 9.4 percent per year. In 2007, growth reached 10.2 percent. Poverty declined from 45-50 percent in 1993-94 to 30 percent in 2007.
- Cambodia remains one of the poorest countries in the region, along with Laos and Myanmar, according to the World Bank's measure of Purchasing Power Parity.
- Garments, tourism, construction and agriculture were the economic drivers over the past decade. Continued growth in these sectors and others is critical in order to absorb the roughly 250,000 Cambodians entering the workforce annually and to deal with an estimated rate of under-employment of 30-40 percent.
- The current worldwide economic downturn is affecting demand for Cambodian garment exports, reducing the number of tourists and reducing finance available for construction. A recent World Bank report estimates Cambodian economic growth at 6.7 percent in 2008 and projects 4.9 percent for 2009. Many analysts expect lower results.

The Garment Industry

- Cambodian exports have been dominated by the garment industry, which grew from a total of \$27 million in 1995 to \$2.7 billion in 2007 – a hundred fold increase. Over 75 percent of the garments are exported to the US and Canada.
- At its peak in 2007, the export industry employed as many as 350,000 workers in over 300 factories, mostly in low value-added cut, sew and trim operations.
- Despite experiencing explosive growth, the garment industry is characterized by low productivity, a severe shortage of skilled personnel, contentious labor relations with frequent strikes, high electricity and transportation costs, and inefficient trade processes reflecting weak and often corrupt governance.
- Major competitors in the region, including China, Vietnam and Bangladesh, seriously threaten Cambodian garment exports.
- The current worldwide financial crisis and economic slowdown are likely to reduce Cambodian garment production by at least

thirty percent over the first half of 2009. The number of factories in operation at the end of 2008 was estimated at around 280 with more closings or suspensions of operations expected.

- Despite the current downturn, the aforementioned structural weaknesses in the industry, and the threats from regional sources of competition, garments will likely remain Cambodia's major export industry for many years.

Labor

- An estimated 250,000 individuals are eligible to enter the Cambodian labor force every year. At best, the formal sector will take in less than one quarter of these new entrants, with the rest consigned to the informal sector, under-employment or unemployment.
- Comparatively low levels of education, literacy and lack of employable skills make it difficult to easily employ Cambodian labor in the formal sector and put the country at a disadvantage compared to regional neighbours such as Vietnam.
- The explosive growth of the garment-for-export industry fostered a similarly explosive growth in organized labor. Twenty-eight labor federations now operate in the garment sector alone, with over thirty-five federations operating in all economic sectors, organized into several larger confederations.
- Like the garment industry, the labor union movement is new with only a decade of experience. Its development has been marked by a high degree of politicization and a general lack of democratic structures and practices.
- In the garment industry, the multiplicity of union federations (28 at last count) has often led to a large number of unions active in a given factory, on occasion more than ten. Labor-management relations have often been difficult, marked by a high number of strikes, most of them illegal by the terms of Cambodian labor law.
- Labor-management relations in other industries stand in stark contrast to the garment industry. In tourism, where unionized business establishments typically have only one union present and have successfully negotiated collective bargaining agreements,

strike activity in these establishments is negligible.

- The growth of the garment industry and the dysfunctional state of labor / management relations in the industry, characterized by union proliferation and excessive illegal strikes, were largely responsible for the creation of the set of activities under review in this evaluation: the Garment Industry Productivity Center (GIPC), Solidarity Center's (ACILS) work in Cambodia, the Labor Dispute Resolution Project carried out by the ILO, and the Better Factories Project also carried out by the ILO.

Evaluation Findings

- With its focus on improving productivity, GIPC remains definitely relevant for the Cambodian garment industry in particular and the manufacturing industry in general. Cambodia must improve productivity to meet threats to its garment industry and to progress toward more sophisticated types of garment manufacturing and into other products.
- GIPC has been effective. It has set up a successful productivity center and a Cambodian non-government organization, named Cambodia Skills Development Center, to carry on its work. GIPC has reached over 15 percent of exporting garment factories with training and consultancy services. These factories employ 40 percent of workers in the export business. It has sponsored and disseminated valuable studies on workforce development, factory level value chain and garment industry compensation. It has developed course materials, helped train unskilled persons entering the workforce, and educated union leaders on the competitive realities of the garment industry. It has met, or will by its end, its monitoring and performance targets.
- GIPC activity has a tremendous impact on productivity in the factories assisted. Conservative estimates of expected benefits show benefits at eight times costs.
- Sustainability remains a serious question. Present plans seem inadequate, especially in light of current economic hardships, resistance from Chinese garment managers and

supervisors, and subsidized training competition from other donor funded programs.

- GIPC has cooperated well with other donor, private sector and government activities, especially on workforce development efforts. Unfortunately the reverse cannot be said as actions of some other donor funded activities have undermined GIPC efforts at sustainability.

Recommendations

For USAID

- Definitely continue to support, but also increase planned time and resources for CSDC/GIPC to improve the likelihood of becoming sustainable. In particular, extend the current 2 ½ years by two years and add funding of \$1.1 million.
- Provide funds for CSDC/GIPC to continue to engage on broader issues and activities, such as developing certification of competencies, introducing university courses on the garment industry and industrial organization, spreading ready-to-work programs, and carrying out key studies. \$100,000 a year or \$400,000 for the total extended period should be sufficient.
- In total, an additional \$1.5 million and a two year extension are recommended for GIPC.
- Engage other donors and Cambodian government on training strategy for the garment industry. It is essential to reach agreement on what to subsidize and how to coordinate on implementation.

For CSDC/GIPC

- Keep focused on bottom line sustainability and carry out your business plan. Behave like a for-profit firm to explore new products and markets, form alliances, and develop staff.
- More aggressively and systematically attack penetration issues. The key to sustainability is to engage in marketing tactics that will overcome the difficulties and reluctance of foreign ownership and management in the garment industry.
- After a year or so, revisit key issues of sustainability and institutional form. In a year the impact of the current global downturn will have likely lessened; the relevant plans and understandings of donors industry, and government, including the proposal for a

Garment Training Institute, should have crystallized; a new law on NGOs should have been enacted; and CSDC/GIPC and its board will have gained valuable experience.

- Charge enough for services. It is essential to cover costs wherever and whenever possible, including for those services provided to SMEs.
- Lastly, quantify results. Keep up the outstanding job of quantifying productivity gains and add a quantitative element on income to the survey of trainees.
- Solidarity Center continues to play a vital role in spreading union democracy and reforming Cambodia's labor regulatory system.
- In the face of declining orders in the garment industry, Solidarity Center's programs to promote worker rights and labor relations stability are critical to maintaining the industry's reputation with buyers for respecting internationally recognized fair labor standards for its workers.
- By emphasizing the training of union leaders and activists in how to achieve Most Representative Status, Solidarity Center is enabling independent unions to achieve collective bargaining agreements that protect worker rights together with effective workplace grievance procedures and concomitant assurances of no work stoppages.
- In contrast to union proliferation and excessive strikes in the garment industry, Solidarity Center has demonstrated in the tourism and construction industries that its union training efforts can lead to representation at the enterprise level by single independent unions, to successful negotiations for good quality collective bargaining agreements, and to facilitating labor-management cooperation, including the resolution of labor disputes without strikes and without invoking government intervention. Examples of such salutary results have begun to spur initial labor relations progress in garment factories.
- Women have been empowered in the labor movement through Solidarity Center's advocacy and training programs. Examples include the formation of the Cambodian Women's Movement Organization, women holding top positions in the tourism and

construction industry federations, and a woman heading a union federation in the garment industry.

- USAID should continue and strengthen Solidarity Center's education and training of union leaders and activists in organizing workers, negotiating collective bargaining agreements, and adopting enterprise level labor-management dispute resolution procedures. Union interviewees unanimously spoke of needing more assistance and urged an increase in Solidarity Center's capacity. Solidarity Center should be strengthened by adding a position to be filled by another individual with strong experience and expertise in labor union development and collective bargaining.
- USAID should enable the restoration of critically needed legal services by the Lean Chinda Law Firm, which uniquely has the depth of experience to expertly advise and represent unions and workers facing continuing violations of their basic rights, vindictive and unfounded lawsuits and criminal charges, and contentious collective bargaining and dispute resolution matters.
- Solidarity Center should be enabled to reopen its Siem Reap office in order to provide regular assistance to the labor federations and unions there, which remain vulnerable to politically inspired opportunistic unions, and which need to continue their promising organizing and bargaining momentum.
- USAID should provide \$300,000 to \$400,000 annually for the next four years for the continuation and recommended strengthening of Solidarity Center operations.

Labor Dispute Resolution Project (ILO)

Evaluation Findings

- The LDR project's principal achievement is the creation and successful operation of the Arbitration Council, which has received 653 cases through December, 2008. By its own reckoning, the Council successfully resolves approximately two-thirds of its cases.
- The AC's success is limited by the non-binding nature of its awards, which, in

turn, has undermined its standing among some factory owners and unions and undercut its potential for deterring strikes.

- Garment factory-level dispute resolution has often been hampered by multiple and competing unions present in one factory and by mutual suspicion between labor and management.

- Recent efforts by LDR and associated projects to train labor union leadership and management on dispute resolution techniques and collective bargaining processes, and its work with the MOLVT to clarify procedures for a union to obtain Most Representative Status, have begun to produce results.

- At least eight garment factories now have collective bargaining agreements in place and others are under negotiation. Training in the collective bargaining process for unions with MRS status appears to have substantially reduced strikes in those business establishments where these unions operate. However, just eight CBAs in place in an industry with 280-300 garment factories shows that there is much work yet to be done.

- The LDR project has worked extensively with the MOLVT to improve its conciliation process in particular, but the systemic underfunding of government operations in Cambodia has undermined results.

- The LDR project's work in improving the legal and regulatory environment for labor, such as the MRS process and the Prakas to establish the AC, has proven extremely valuable.

- Since future financing of the Arbitration Council is about to be supported by the World Bank, no additional financing from USAID or any other donor is required.

- USAID, and other donors, should continue to finance the ILO's work to support further improvements in factory-level dispute resolution and prevention, especially efforts focused on expanding the number of unions with MRS status, and efforts to expand the number of factories with CBAs in place.

- USAID, and other donors, should continue to finance the ILO's work with the MOLVT and other Cambodian entities to assure that changes in Cambodian labor law are well

drafted, in keeping with international agreements concerning labor, and promote achievement of a functional industrial relations system in the country.

- USAID, and other donors, should continue to support ILO efforts to improve MOLVT's conciliation service, with a focus on management and reporting functions, and with a close tie to ongoing financial and structural reforms of the Cambodian government.

- USAID should contribute in a range of \$300,000 to \$400,000 annually for the next four years to support all of these efforts for a total of \$1.2 to \$1.6 million.

- BFC remains relevant in Cambodia as a reliable vehicle for measuring factory compliance with international and Cambodian labor standards.

- BFC has put into place a comprehensive monitoring and reporting system that reaches all garment exporting factories and whose reports are now paid for in part by a substantial number of international buyers.

- The project is now in the process of improving and expanding its training efforts for factories to assist them in complying with labor standards. While this effort still lags the monitoring effort in scope, greater emphasis on training and other forms of collaboration will improve BFC's image and position with factory owners and managers.

- BFC management has done an outstanding job of expanding financial sources of support, which include not only international donors and garment buyers, but internal support from factory owners through GMAC, the RGC and, to a much lesser extent, the unions.

- Despite the increasing number of financial supporters, sustainability questions remain, including the ultimate institutional structure for BFC and how the integrity of its work can be maintained without the leadership of the ILO.

Recommendations

- When the major longitudinal study of progress in the level of labor compliance is completed by BFC in 2009, the techniques used should be institutionalized so that the process of properly measuring progress in achieving results can be continued.

- BFC's recent focus on expanding its training and advisory services to factories to meet their compliance commitments should be continued.
- Given the volume of financial resources now committed to the project, there is no critical need for continued financing of BFC by USAID.
- However, given the USG's founding role in this project, and as a means of signalling its continued interest in labor standards compliance, USAID may wish to continue some modicum of financial support to the project.
- Another means of supporting the project could involve financing some aspect of the public-private partnership which the project has encouraged between itself and the international garment buyers. This partnership might take the form of an agreement between USAID/Washington and the ILO's Better Work project, which could not only support BFC, but also the extension of the project model beyond Cambodia.