INTRODUCTORY REMARKS

Ms. Claudia Coenjaerts, Director/International Labour Organization (ILO) welcomed the participants to the workshop, and, reflecting upon video clips that she had recently viewed at an event organized by the Department of Employment and Labour, spoke of the “happy worker, cleanliness and good management practices” she had seen at the workplaces of the winners of the National Productivity Policy Awards. This, she informed participants, was very encouraging and brought home the message to her, that it is people that matter most when it comes to improving productivity. Moreover, Ms. Coenjaerts noted that this concept very closely echoed the ILO’s Decent Work Agenda, which highlighted the importance of human and social capital in order to sustain productivity and growth. At a national level, Ms. Coenjaerts noted that the need to improve productivity is widely established both within the private sector and among policy-makers in Government. The National Productivity Policy itself calls productivity the “key to prosperity” and identifies it as the most critical factor to improving the standard of living for Sri Lankans. More recently, the latest policy statement, “Regaining Sri Lanka” also highlighted the importance of improving productivity to increase incomes and attract new investment.

With more specific reference to the garment industry, Ms. Coenjaerts noted that there have been numerous efforts to analyze the problems and challenges faced by the industry post-2004, which generally concurs that improving productivity is essential for improving competitiveness. However, these have been mostly focused on larger enterprises in the garment industry and have not addressed the needs of the small and medium apparel sector. Ms. Coenjaerts challenged the participants to look more closely at the practical issues faced by the small and medium enterprises (SMEs) in this sector and to ask themselves the hard questions that can set them on a path that integrates their needs with those of larger enterprises. She commended the apparel industry for its foresight in attempting to understand the issues that lie ahead for it. She concluded, encouraging participants to make use of this brainstorming session for stakeholders to set strategic goals, identify key interventions, action points and partners and to develop a practical action plan for the small and medium apparel sector and offered ILO developed tools and funding to support their efforts.

Mr. Ranjit Fernando, Secretary, Ministry of Industrial Development commended the ILO for its timely organization of this workshop in an environment where the SME apparel sector is facing tremendous challenges. He noted that although Sri Lanka had been one of the first countries in the region to liberalize, it had lagged behind in many ways. He positioned Sri Lanka in accordance with Michael Porter’s phases of competitiveness and observed that Sri Lanka had finally begun to move away from competitiveness based on factors of production (“cheap labour” in our case) and was now emerging as a country seeking to compete on the basis of its productivity. He proposed that Sri Lanka should aim to compete on the basis of “innovation”, the third Porter phase, to be able compete in the world market with countries like China. He then moved on to discuss the challenges that the garment sector would face in 2005 in a quota-free environment and noted that although the larger companies have the resources to manage their own future, the small and medium sector, which accounts for the largest percentage of employment, will be the most vulnerable. Mr. Fernando commended the leadership within the associations in the SME sector, who have taken it upon themselves to undertake firm by firm evaluations and expose their membership to the concepts and practical benefits of pursuing productivity as a goal. He noted, however, that productivity in Sri Lanka has been defined very narrowly, as maximization of productivity with a focus on inputs, and encouraged participants to have a more strategic view of productivity and aim for forging new alliances, tapping niche markets and acquiring new technologies and focusing on high value output instead. In this context, Mr. Fernando noted the reorientation of the Board of Investment away for “investment for investment’s sake” to a policy which aligns foreign investment priorities with domestic needs, focusing on
investments that upgrade the national skills level, provide market access, and introduce new technology and products to the country. He concluded complimenting the ILO for being at the forefront of issues faced by industry, the staff of his own ministry for their excellent capacity and dynamism, and the Association of Small and Medium Enterprises for its foresight in pushing for this workshop.

**Mr. Deepthi Lamahewa of the Ministry of Enterprise Development** ensured that the participants were fully briefed on the objectives of the workshop. He noted that the morning session would address the challenges confronted small and medium enterprises in a post-Multi-Fibre Agreement (MFA) environment, followed by an identification of the specific issues and concerns related to the SME apparel sector, a prioritization of these concerns and the development of a practical work program to improve competitiveness. He stressed the participatory nature of the workshop and encouraged full engagement by the participants in the interest of a fruitful outcome.

**Mr. Gopal Joshi, Senior Enterprise Specialist, SAAT/ILO** made a presentation on the competitive challenges for small and medium enterprises in a post-MFA world, highlighting challenges, trends and lessons from the region. He noted at the outset that the garment industry in South Asia has seen tremendous internal transformation in recent years with major increases in the number of workers engaged in manufacturing, and within that, a significant increase in the percentage of women involved in garment production which gave great incentive for these nations to confront and survive the challenges of the post MFA environment to ensure that these women’s livelihoods were not affected.

Mr. Joshi traced the global evolution of the garment trade during the past decade broadly highlighting international trends that are of direct relevance to South Asia. He noted the geographical changes that are occurring in the among the key players in the global garment industry, with the US/Germany/Japan recording significant increases in imports during the 1990’s and with certain countries like China, increasing their export contribution by almost 200 %, while countries like Thailand are no longer of particular importance to the industry. He highlighted the miniscule contribution that exports from South Asia play in the global garment industry and within the qualitative levels of the trade, having virtually no impact upon the high value branded merchandise sold in specialized shops or in name brand upper end department stores. Instead, he noted that South Asian nations primarily produce merchandise which is sold by weight or as discount merchandise. Nevertheless, Mr. Joshi commented that he saw potential for Sri Lanka to move into those low volume, high value product ranges.

Mr. Joshi observed that South Asia’s geographical distance from major buying countries is becoming increasingly a factor to contend with as buyers in N.America and W. Europe seek producers in close regional proximity (ie Mexico and E. Europe) to maintain close monitoring on quality and other standards. Yet, South Asian countries have not made an effort to market itself as a distinct regional grouping. Moreover, Mr. Joshi noted that South Asian countries, being at the lower end of revenue generation by focusing on stitching, have much scope for value addition and diversification into design, marketing and finance which dominate revenue generation in the industry. With specific reference to Sri Lanka, Mr. Joshi commented on the fact that Sri Lanka has both high wages and low productivity but is competing against countries like China and Bangladesh that have lower wages and higher productivity. He warned participants that when quotas are removed, it is the non-quota barriers that will differentiate exporting countries, thus, factors like quality of work, adherence to international labor/health and safety standards, wages and benefits, freedom of association will take on greater importance. He therefore encouraged Sri Lankan manufacturers to focus on improving productivity, increasing value addition, backward and forward linkages, upgrading the skills of workers and diversifying markets as they seek to sustain the apparel industry in Sri Lanka.

**Mr. Rohana Kuruppu of Phoenix College of Technology** presented the findings of a pre-seminar rapid assessment survey he had undertaken on the external and internal environment facing SMEs, with specific reference to recommendations on how to improve quality and productivity. He provided his observations and recommendations in the broad categories of external and internal competitiveness of
the industry. Among his findings were that the industry is plagued with poor infrastructure, lack of marketing professionals, an overdependence on buying agents and are not compliant with social responsibility. He observed that the industry faces severe constraints in the area of marketing, not only in the lack of competent marketing personnel in SMEs but also in their inability to provide fully integrated packages, predict the cost of manufacture and as such are compelled to accept unprofitable orders. He recommended that the industry promote the development of professional marketing personnel, product development technicians and professional sample rooms to promote products more successfully in the global market. He further recommended that more emphasis be placed on analyzing and understanding the needs of the market. With regard to compliance issues, he recommended that certificates of conformity be issued to improve compliance. With regard to internal competitiveness, other than the existence of good financial compensation, Mr. Kuruppu's survey highlighted a number of firm level practices which constrain the development of the SMEs in the apparel sector – these included poor management of the manufacturing process (low value added products, conventional old machiner, poor fabric evaluation methods, unsystematic cutting plans, inaccurate targets), the absence of work measurement or productivity measurement techniques, poor maintenance, poor human resource management, the absence of a team management culture, untrained middle management and below standard safety and health systems. He recommended a wide range of factory level improvements in each of these areas.

Mr. Roy Jayasinghe, Addtl Secretary, Ministry of Enterprise Development noted that the Ministry was fully aware of the findings of the survey and was keen on addressing the macro and micro aspects. He noted that the garment sector had been clearly identified as a high priority sector in the “Regaining Sri Lanka” document and was included in sixteen strategic sectoral evaluations undertaken by the Ministry. In terms of the Quota Boards, the Ministry had taken into consideration strategies of quota management prescribed by the private sector, and agreed to facilitate the allocation and transfer of quotas without the direct intervention of the Government.

Mr. Jayasinghe provided details of the special negotiations that the Government had undertaken on behalf of the garment industry including a quota free market with the European Union, an on-going framework negotiation with the United States where lobbyists had been hired and quota access to the Indian market. In terms of financial infrastructure, Mr. Jayasinghe commented on the minimal tax regime applicable to the apparel sector, the reduction in the cess in the 2002 Budget and the duty free import facilities for machinery and other inputs that have been put in place to support the development of the apparel sector. He further noted that in 2003, a dedicated fund to support the apparel sector would be established in collaboration with the Norwegian Government and UNIDO. In the area of Human Resource Infrastructure, Mr. Jayasinghe noted several marketing and design courses which the Ministry was seeking to have established within the private sector as well as competency training for managerial and supervisory grades and training on supply chain integration. He also noted that surveys had revealed inadequacies in technical infrastructure and that the Government was looking into the creation of technology enclaves with access to centralized facilities, joint services, training and special duty free import facilities for machinery, although the absence of a local fabric base remained a severe constraint to such dedicated industrial sites.

Finally, Mr. Jayasinghe noted that action has been taken to minimize transaction costs by minimizing documentation, Electronic Data Interchange, deregulation, reduction of port delays and the establishment of a one stop documentation center. In response to a concern that was voiced by a participant regarding the exclusion of SMEs from Ministry organized programs, Mr. Jayasinghe assured them that state policy would not be focused solely on the large enterprises and that the SME Association would be included in all future programs of the Ministry.

Mr. Rie Vejs Kjeldgaard, ILO Geneva, presented a global assessment of business opportunities and their link to job quality services in 11 countries throughout the world. The studies focused on the perceptions of the employees and employers regarding a range of issues including occupational health and safety, social protection, job security, human resource development and core labour standards, among others. On the basis that job quality and productivity are closely linked, the ILO has
developed a series of practical tools and services to meet the needs of small and medium enterprises. These training modules are part of the business development services portfolio of the ILO.

Mr. Andreas Klemmer, CTA/SIYB Team, presented the Start and Improve Your Business (SIYB) program of the ILO, which has been implemented in Sri Lanka in Colombo, Matara and Kurunegala with tremendous success. The “People and Productivity” package provides training courses on the issues of how to link job quality, productivity and increase competitiveness through a participatory, action oriented weekend training program. This materials based training program is followed up with consistent follow up through factory visits and impact is systematically assessed. It is promoted through an awareness campaign organized by the Ministry of Enterprise Development. The impact of the training is documented by giving publicity for high performers in the media as role models.

Mr. Jayantha de Silva, Factory Improvement Project (FIP), in association with Third Wave, presented a program that was initiated in July 2002 with US Department of Labour funding and was implemented with 8 factories in a competitive selection process. Each training module was followed up by factory visits and improvements at factory level, once decided, were tracked and responsibilities for implementation determined with the full cooperation and participation of all employees. A scorecard of critical indicators was tracked monthly on the basis of daily averages. This program has been very successful due to the close interaction between factory staff and supervisory staff and significant achievements in health and safety standards, quality and productivity were reported. Moreover, employer turnover, absenteeism were reduced considerably and sample turnaround time was reduced from 46 hours to 33 hours. Three enterprises that participated – Mirigama Clothing Inc, Shadowline and Sunchia (Pvt) Ltd presented their successful pilot efforts under the FIP.

DISCUSSION ON PRIORITIZATION OF ISSUES AND SOLUTIONS
(Moderated by the Ministry of Enterprise, Industrial Development and Investment Promotion and ILO/Geneva office technical specialists)

A brainstorming session was facilitated to enable participants to collectively prioritize the issues that they felt were the most important for the SME sector. Each participant was requested to suggest up to three (3) issues which they felt were among the pressing matters which required attention. Thereafter, these issues were sorted into six (6) broad categories. The priority categories and a summary of the issues that were highlighted during the brainstorming session are listed below:

**Technology** – Participants stressed the importance of developing more systematic mechanisms to upgrade and advance technology related to the SME apparel sector in Sri Lanka.

- Review the global experience on production technology using the internet and other media.
- Gain access to international expertise to improve and update level of technology development in the sector.
- Introduce “just in time” and “real time” information systems.
- Obtain special assistance to upgrade existing machinery and modernize factories.
- Develop capacity to provide accessible computer-aided design/drafting centers for small enterprises.

**Productivity** – The participants highlighted the need to adopt new and innovative methods of increasing productivity, the types of systems that could foster real changes and the financial cost of their introduction.

- Introduction of modern machinery and upgrading of existing equipment and building to enhance productivity;
- Develop more systematic organization of factories – with new systems of waste reduction, well planned buildings - specific actions and timelines; (adopt the Japanese 5 S system)
- Introduce productivity measurement schemes
• Good merchandizing and planning – learn more about benchmarking; fabric issues – ensure availability of a stock of fabrics to reduce lead time. Import grey fabrics from India.
• Reduction of lead time
• Teach theory of constraints…
• Address issues of human resource mobilization more effectively – introduce team-based approaches that build team spirit and create an environment of joint responsibility for productivity - provide on-the-job training and skills enhancement programs for workers, institute incentive schemes (target bonus/attendance bonus);
• Product development – design, marketing - Introduction of new products or different fashions. Develop cadres of trained designers locally. Common sample making facilities.
• Provide short term 3-6 month expertise/consultancies to individual factories to address their productivity issues and develop targeted action plans for themselves.

Marketing – Priority concern was voiced regarding new methods of marketing and access to information to source new markets.
• Ensure marketing opportunities from existing and new trade agreements are distributed rationally and equitably.
• Improve information base to facilitate sourcing of new and different markets.
• More stress on direct marketing
• - provide greater opportunities for SMEs to gain exposure to direct marketing and develop direct buyer contacts (eg. special buyer/seller meetings for SMEs at 50% cost) – consider methods to attract direct buyers to set up offices in Sri Lanka.

Human Resource Development – Create a quality conscious, professional workforce that is effectively engaged in the decision-making process and aware of its role in the production process.
• Skills Development :
  o Upgrade the skills of the workforce through a multiplicity of methods – awareness programs, learning while working techniques, “multi-skilling” instead of specialization;
• Middle Management:
  o Programs to educate SMEs management on human resource development methodology and techniques- to help and encourage training of staff.
  o Product development education for people working in the industry – designer programs.
  o Proper training of personnel to transfer technology and introduce new production methods.
• Attitudinal change of workforce:
  o Make workforce more quality conscious
  o Encourage more forward looking outlook and greater responsibility for product
  o Prepare workforce for handling high pressure work and stress related to deadlines.
  o Incentivize” payment systems – guaranteed minimum wage with piece work rate for greater output levels.
  o Professionalize workforce – encourage responsibility - reduce turnover, absenteeism, tardiness.
• Training Institutions:
  o Expand training facilities at CITI
  o privatize CITI and TTSC
  o Training organizations should be prepared to offer flexible training modules – remain engaged with industry so that relevant courses can be identified.
• Consultancies:
  o Funding for “knowledge hire”
  o Resource personnel for training programs, skills development, technology upgrading.
Finance – Low-cost, financial assistance needed for technology development (modernization of factories, purchase of new equipment, improve infrastructure), for marketing missions and for compliance certification.

- Need low cost financing (less than 3%), compatible with the interest rates in regional countries and without the extensive security systems presently in place in the commercial banking sector in Sri Lanka.
- Consider easy payment schemes for foreign loans, interest-free loans and grants, where possible.
- Establish a fund for the SME sector to obtain direct financial assistance.

Compliance – Participants noted the existence of numerous compliance standards and suggested that compliance requirements be rationalized and a uniform set of minimum standards be developed for the whole apparel industry.

- Different standards are presently set by each buyer making compliance cumbersome and costly for individual companies.
- A minimum compliance list for the whole industry should be developed within the industry and should be made into a common standard for all enterprises.
- Once a minimum standard is established, compliance should be strictly enforced.
- Many enterprises need technical expertise in the form of consultants or advisors who can assist them in making the necessary changes within their facilities to reach a level of compliance.
- Enterprises need funding to support their compliance initiatives.
- Training institutes should facilitate compliance through their programs and also maintain their own compliance with established standards.

Several broad “umbrella” areas of concern were also noted during the discussion. These included –

- The need for a level playing field in the industry taking into account the needs of larger enterprises as well as small and medium enterprises.
- The importance of the entire apparel industry working together with a common purpose and goal.
- The value of ensuring that one compliance standard is applied to the apparel industry.
- Job quality improvement and product quality improvement.
- More facilities to be provided to the apparel industry – land and buildings in export processing zones which cater specifically to the apparel industry and provide competitive advantage through clustering of SMEs and provision of specialized services.

The participants were subsequently divided into three working groups to review the priority issues and come up with solutions which can be developed into an action plan. These issues/solutions were then compiled into three separate charts and presented to the plenary group. A single table combining the recommendations of all three groups is provided herewith for use in the development of an action plan for the SME apparel industry. (See attached table)

CONCLUSIONS:

The workshop concluded on a very positive note, with Ms. Claudia Coenjaerts commending the participants for their commitment in remaining engaged in the workshop’s deliberations despite heavy work obligations. She indicated that the ILO would carry the agenda of this workshop forward by establishing an advisory group of 10 stakeholders from the sector to develop a draft action plan, both from a short term and long term perspective. She further informed the participants that there would very likely be future donor support both from the ILO and other donor agencies for the implementation of the proposals that have emerged from the workshop.
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<th>CONSOLIDATED TABLE OF GROUP WORKING SESSIONS</th>
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<td>Areas of Concern</td>
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<td>HUMAN RESOURCE MANAGEMENT</td>
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<td>Outdated Labour Laws</td>
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<td>Lack of Human Resources</td>
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<td>FINANCE</td>
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<td>Lack of funds to upgrade technology</td>
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<td>Lack of funds to provide training</td>
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<td>COMPLIANCE – “compliance within reason”</td>
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<td>No proper standards</td>
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<td>Consultancy</td>
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<td>Stakeholders Areas of Concern</td>
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<td><strong>MARKETING</strong></td>
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<td>Product development and specialization</td>
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<td>Need close marketing connections in buyer countries.</td>
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<td>Lack of access to information</td>
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<td>Lack of marketing opportunities</td>
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<td>Buyer’s offices in Sri Lanka</td>
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<td><strong>PRODUCTIVITY</strong></td>
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<td>Lack of awareness of techniques/technology</td>
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<td>Need training</td>
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<td>Upgrade infrastructure</td>
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<td><strong>TECHNOLOGY</strong></td>
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<td>Machinery and production techniques need to be upgraded</td>
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<td>New products must be developed</td>
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<td>Expertise not available</td>
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