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Forging competitive linkages in the apparel cluster of Atuntaqui.

The challenge

Atuntaqui is an urban center in the province of Imbabura, Ecuador. Since the 1960s, its economy has been driven by the blossoming of an apparel cluster that rapidly turned into an engine of growth for the entire region. Today, the cluster counts with some 500 large companies and 2500 small and medium firms employing nearly 80% of the local workforce and generating an annual turnover in the range of US\$ 10 to 15 million.

In the late 1990s, however, the country suffered a dramatic **economic drawback** with raising inflation and macroeconomic instability that also affected apparel production in Atuntaqui. Moreover, the adoption of the dollar as official currency, while helping economic recovery, inflated prices to the extent that apparel export almost came to a standstill and **competition** with imported goods **escalated** in the domestic market. In 2004 to 2007, the UNIDO Cluster and Business Linkages Programme, with co-funding of the Ministry of Trade and Industry (MICIP) of Ecuador, assisted the cluster to regain its competitive edge.

The UNIDO initiative started with a participatory diagnostic study. This revealed that, traditionally, the cluster had based its competitiveness on **low cost production** rather than on quality. It also highlighted that the **technological base of the cluster was weak**, as the equipment in use was outdated and specialized human resources were missing.

Finally, small-scale production jeopardized the capacity of individual firms to supply markets regularly and with large volumes of products.



The approach

To revitalize apparel production in the Atuntaqui cluster, **UNIDO has promoted innovation and technological upgrading** by means of fostering collaboration between local actors, public and private.

This approach reckons that linkages between the actors of an economic system are an important factor of competitiveness. Indeed, collaboration between firms facilitates investments in upgrading and learning. It allows them to specialize and cater more demanding markets. At the same time, linkages between firms and institutions ensure greater access to support services, information and knowledge that were, otherwise, out of reach for individual firms.

In a nutshell, working together, cluster actors can yield collective efficiency gains that reduce the costs and risks of innovation.

To start with, the UNIDO project provided **technical assistance** to leading apparel producers in the cluster with the objective to improve production processes and



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to help firms identify scope for specialization in complementary stages of apparel production.

The selection of the beneficiary firms was done so as to maximize impact and create a demonstrative effect that would stimulate other cluster entrepreneurs to invest in innovation.

Moreover, the provision of technical assistance went hand in hand with the **strengthening of business linkages**. Indeed, UNIDO helped the assisted entrepreneurs to identify shared objectives and, acting as a neutral broker, it provided them with handholding in the establishment of seven networks.

A case in point is GLOBALCOM, a network of 4 firms that agreed to joint sell to retailers in order to develop a larger product offer. As the volume of sales increased, the firms found it difficult to meet larger orders due to unsteady availability of inputs. This challenge encouraged a shift from horizontal to vertical integration. Thus a textile producer of proven reliability was identified and integrated into the network, which allowed for significant improvements in cost and time of textile supply for garment production.

Overall, the networked entrepreneurs could increase their productivity, address new markets and undertake investments that required of a substantial critical mass.

Further, UNIDO promoted **collaboration between firms and institutions** in two key aspects of innovation, namely technology and specialized skills.

With regard to **technology**, individual small-scale firms hardly command the resources necessary to access modern equipment, particularly so when its optimal utilization involves economies of scale. The **establishment of a services center** that addresses

the needs of cluster firms provides an answer to this challenge.

Thus, UNIDO sensitized the Chamber of Commerce and a local University on the technology requirements of the firms and supported them in the development of a corresponding service offer.

As a result, University and Chamber have developed a wider-ranging portfolio of complementary services.

The University has focused on assisting firms in improving production layout and time as well as pattern making.

The Chamber has become a focal point for process upgrading by establishing a specialized **center for digital design**, equipped with a CAD system.

As digital technology was new to the cluster and no local expertise was available on the use of the CAD/CAM system, UNIDO identified a service centre in Guatemala, that could provide training to cluster firms, and facilitated the establishment of a linkage with the Atuntaqui Chamber of Commerce. The Guatemalan center organized weekly training workshops with the participation of apparel producers as well as staff members of the Chamber of Commerce, so to create a pool of local trainers that could meet future training requests. Seventeen employees and three representatives of local institutions participated in the course and acquired advanced knowledge on pattern making. Finally, the Chamber has developed a range of services aimed to increase **access to market information** such as support to marketing and participation in trade fairs.

With regard to the limitations in accessing skills, the diagnostic study disclosed that the unavailability of **specialized human resources** mainly owed to a



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mismatch between educational offer and skills demanded by the cluster. In absence of coordination, vocational schools were unable to design appropriate training programmes, while firms found it difficult to communicate their needs in terms of human resources. UNIDO identified a partner in the Handcraft Centre Teodoro Wolf, a local vocational school. Providing assistance to the Centre would namely improve the skill base of the cluster, while also showcasing the benefits of the initiative and promoting its replication on a larger scale. On the one hand, UNIDO supported the development of **updated teaching curricula** based on the requests of the private sector. On the other hand, the establishment of a **traineeship scheme** provided for the creation of a linkage between the Centre and cluster firms, thus facilitating the employment of the skilled trainees.

Achievements

As a result of the UNIDO assistance, beneficiary firms:

- improved **development and production time** by a 15%.
- increased **sales** by 60% through the establishment of joint retail outlets.
- registered another 40% increase in sales as a result of joint supply agreements with.
- upgraded from the production of low cost, low quality garment to **quality production oriented by consumer demand**.

These improvements were accompanied by a 60% increase in **employment** and 15% in **salaries** for the workforce of networked firms (2004-2005).

A final turning point for the growth outlook of the cluster came with the involvement of local policymakers. The

achievements of the UNIDO project led, namely, the municipality to reckon that apparel production could play a strategic role in the development of the region. Thus, the municipality sought the collaboration of the private sector to formulate a **strategy of territorial marketing** aimed to position Atuntaqui as a leading pole for apparel production. This entailed the revitalization of an annual promotional fair, hosted by Atuntaqui, that has now turned into a central event to attract buyers and tourists to the region.

Taking a far-sighted stance, the municipality also reckoned the importance of linking the dynamism of the apparel industry to other economic activities of the region. As a result, with UNIDO's facilitation, the representatives of most relevant economic sectors (i.e. apparel, tourism, agro-industry and handcraft) were engaged in the formulation and implementation of an **integrated local economic development strategy**.

Today, the region of Atuntaqui registers the lowest unemployment rates in the entire country and apparel production has re-gained a stable foothold in the local and regional market.

