

LABOR MARKET INTERMEDIATION SERVICES

(TC-00-03-016)

EXECUTIVE SUMMARY

Executing agency:	Fundación para la Educación Integral Salvadoreña (FEDISAL)	
Beneficiaries:	The principal beneficiaries of the project are the private sector firms and workers in El Salvador directly utilizing the services of the national intermediation service. The project seeks to serve at least 5,000 firms and register 39,000 workers in the service in three years. Training institutions would also benefit by having a central resource to better place their trainees and receive referrals from workers requiring training.	
Financing:	Modality:	Non-reimbursable
	MIF (Window II)	US\$1.63 million
	Counterpart:	US\$ 699,887
	Total:	US\$2.33 million
Terms and	Execution Period:	36 months
Conditions:	Disbursement Period:	42 months
Objectives and Description of the Project:	<p>The general objective of the project is to improve efficiency of the labor market in El Salvador and better meet the human resources needs of the private sector. Private sector firms in El Salvador experience substantial difficulties in finding appropriately-skilled workers on a cost efficient basis. The specific objective of this project is to pilot a private sector-based labor intermediation service which would more efficiently match employers with new employees and workers to training needed by the private sector. The purpose of the SIE would be to reduce transaction costs to firms, reduce unnecessary job turnover and frictional unemployment, improve the quality match of workers to jobs, and improve the match of workers to relevant training needed by the private sector. The principal services of the pilot SIE (<i>Sistema de Intermediación para el Empleo</i>) would be skills assessment, job placement, and training referral for workers. This project represents an innovative approach from more traditional, public sector-based employment services offered in developed countries and represents a unique effort in the region to pilot a solely private sector-based model on a national scale in a small developing country. It provides the framework and impetus as well for a substantial reform of the labor market in shifting from public to private sector-based labor intermediation services.</p> <p>The project would consist of three sequential components: (i) design and development of labor market services and instruments (Component 1); (ii) testing and implementation of the core</p>	

intermediation system (Component 2); and, (iii) promotion, consolidation and monitoring of the model (Component 3). The project sets specific and measureable benchmarks for firms and workers served, levels of job and training intermediation and cost recovery.

**Exceptions to
Bank Policy:**

None

**Special
contracting
conditions:**

There will be two conditions of first disbursement: FEDISAL will present evidence of secured counterpart financing for the project through a signed service contract with INSAFORP (in the terms indicated in par. 4.10) and will also present an action plan for the activities of the first six months of the project. Neither condition is expected to significantly delay the initiation of the project.

CESI:

The CESI approved the operation on November 3, 2000, requesting no further action.

I. COUNTRY AND PROJECT ELIGIBILITY

- 1.1 El Salvador was declared eligible for financing by the Donors Committee of the Multilateral Investment Fund (MIF) on December 3, 1993. This project is proposed for financing under the Human Resources Facility (Facility II) of the MIF whose objective is to develop the human resource based needed for increased investment flows and an expanded private sector.

II. BACKGROUND

- 2.1 El Salvador has begun a profound structural transformation in the 1990s following years of decline during the civil war. One of the key areas requiring transformation is the operation of the labor market. Even though the nation has exhibited relatively moderate levels of official unemployment (around 7%), these levels mask more profound distortions. The level of underemployment – considered the proportion of the population earning below the minimum salary – is over 30%. Large portions of the workforce continue to immigrate, largely to the United States, seeking better working conditions and salaries. Poverty and low levels of education impede advancement of the unskilled labor force. Female labor force participation, a growing element of the Salvadoran economy, faces significant barriers.
- 2.2 Current information indicates that the workforce in El Salvador predominantly does not suffer long periods of unemployment, largely because they cannot afford to. Firms report significant inefficiencies and high costs in finding the right personnel and in replacing lost personnel. Empirical evidence from the *Instituto Centroamericano de Administración de Empresas* (INCAE) indicates that El Salvador exhibits high levels of job rotation, that is, significant proportions of the population hold jobs for only short periods and then rotate to short-term unemployment and then to other jobs. These levels are higher than the so-called “rigid” labor markets of Europe and even higher than the most notably flexible labor market of the United States.¹ In the case of El Salvador, high levels of job rotation come from both high levels of underemployment and mismatching of employees to positions. High job rotation decrease firm productivity and increases transaction costs for firms.
- 2.3 An important element in the poor operation of the labor market in El Salvador is that there are few mechanisms to facilitate appropriate and more lasting matches between available jobs and the profile/skills of workers. Firms have few formal methods to find qualified personnel. A typical method is to advertise in a local newspaper. Such open advertisement results in a flood of applicants, requiring

¹ The INCAE/BID study “Estudio sobre aspectos salientes del mercado laboral centroamericano,” indicated a monthly rate of entrance into the labor market of 2.6% in El Salvador, higher than any other Central American country and higher than either the United States (2.2%) or Europe (less than 1%).

great demands on employers' time and short-term decisions with often ill-matched hiring. Another secondary method of finding employment is through informal or family networks. This method is highly discriminatory and does not present employers with the widest range of choices.

- 2.4 The Ministry of Labor and INSAFORP (*el Instituto Salvadoreño de Formación Profesional*) have related public responsibility for facilitating the connection between workers and jobs. There has been a very small Ministry of Labor-run employment service in El Salvador. The Ministry readily admits that this public sector system has been ineffective in facilitating placement and that it does not have the support or confidence of the private sector. The training system has been dominated by INSAFORP, the national tri-partite training institution supported by a national business payroll tax (1%). Business payroll taxes go directly to INSAFORP, which organizes training courses for workers and managers in a wide-range of subjects. INSAFORP is distinct from many similar tax-financed national institutes is that it predominantly finances and supports training by external providers, rather than conduct the training themselves. Nonetheless, there is still concern that current training should be more closely connected to private sector demand and utilize more modern training techniques and equipment.
- 2.5 INSAFORP and other Salvadoran training institutions typically advertise or post notices seeking trainees for open training courses. There is currently no mechanism which links or assesses workers' skills and refers them to appropriate training or which systematically collects data on employer demand to provide information as to what types of training courses should be offered nationally. Both the Ministry of Labor and INSAFORP recognize the critical need in El Salvador to develop formal mechanisms with high levels of private sector participation which better link workers to jobs and to appropriate training, and to more actively monitor private sector demand for both employment and training. INSAFORP has a particular interest in the information base on private sector demand that that an employment service would generate and in training referrals. The Ministry of Labor as part of national government policies has promoted modernization of its employment policies and public employment service. Both INSAFORP and the Ministry of Labor with private sector input have worked to support the development of a proposal by the *Fundación para la Educación Integral Salvadoreña* (FEDISAL) for a private-sector based labor market intermediation system that would serve national employment and training needs for private-sector development.
- 2.6 FEDISAL is a non-governmental organization with strong connections to the Salvadoran private sector. It has developed an innovative proposal to pilot a private sector-based model to match job openings with job seekers and workers to needed training. The intention of the proposed project is to reduce transaction costs for firms, improve the match of employees to new employment, refer workers to appropriate training, and provide training institutions with up-to-date information on employer skill requirements. FEDISAL is uniquely positioned to run a private sector-based intermediation system because of its high level of

credibility with the private sector, track record in an earlier pilot effort, and project management expertise in labor markets projects. The Ministry of Labor has undertaken a leadership role to advocate reform of the current system by formally agreeing to support a private rather than public national employment service with FEDISAL. The Ministry has also led consultations on this project of labor intermediation with the labor, business, and social sectors as part of its overall employment strategy. The current proposal builds on past experiences with employment services in the developed countries, but represents a significant departure from past efforts in its private sector framework, outreach and service model and application to a small, developing economy where such intermediation services may address specific short-term employment needs. The proposal of FEDISAL builds on a very small, but successful experience to place trainees in new employment developed under a training consortium project (ATN/MH-5167).² This experience showed a high level of private sector need and response to effective methods of matching workers to available jobs. The experience showed, however, that such services are too isolated to have a larger impact on the labor market without a national information and placement system.

- 2.7 The project as well fits within a larger Bank/SO2 strategy for labor market development in the Central American region. That strategy emphasizes the building of core labor market systems to improve the operation of the labor market, better serve private sector demand and increase human capital investment. The labor market intermediation service pilot proposed for El Salvador would serve as a model for private sector-based systems in the region. The proposed project will be presented, monitored, and promoted at the level of the Central American ministers through the regular meetings of the ministers in the current MIF Labor Markets Modernization regional project (BID/USAID/SIECA/MIF/AT-176) to increase regional learning and participation in the project and promote lessons learned.

III. PROJECT OBJECTIVES, COMPONENTS AND ACTIVITIES

A. Objectives

- 3.1 The general objective of the project is to improve the efficiency of the labor market in El Salvador and better meet private sector labor market needs. The project would do this through implementing and testing out a labor intermediation system to better match employers and potential employees and workers to needed training. The project's specific objective is to pilot a private sector-based labor intermediation service which would more efficiently match employers with new employees and workers to training. To accomplish this, the project intends: (i) to design new instruments and the specific services for a modern labor intermediation system (Component 1); (ii) test and implement this intermediation

² While successful, the previous experience was more narrowly a single employment service only for those workers trained under the project, and as such, does not represent a pilot for a national service.

system (Component 2); and (iii) promote and consolidate this system in terms of services and national coverage (Component 3).

B. Project Components

3.2 The project would have three principal components which are presented sequentially:

1. Component 1. Design of Labor Intermediation Services and Products (\$181,272 MIF)

3.3 This component would finance the technical assistance needed to design the instruments and specific services to be provided by the private sector-managed intermediation service (to be called *Sistema de Intermediación para el Empleo (SIE)*). This component would include the design and development of the following services to be offered by the SIE: (i) assessment: worker and firm profiles to assess personnel needs and worker skills/experience; (ii) employment matching service; and, (iii) training registry and matching service. Among the specific outputs of the first component would be: the formats, design, and operational guidelines for both the employment and training registries; the operational manuals and regulations needed to administer the network of centers; the design of training programs for the personnel of the SIE; the design of the information data base and the electronic Web system to support the SIE, and the design of software needed to manage the SIE more efficiently. In developing these services and products, the project would provide resources to study international experience and systems (e.g. software, administration) as an input to designing Salvadoran-based services. This would include two limited regional visits to consult with experts and see programs in operation. In the second year, a market study would be financed to assess how well the services are meeting private sector needs, where and on what basis fees would be introduced for specific services, and whether additional services could be introduced on a self-sustaining basis.

2. Component 2. Implementation of the Basic SIE Model (\$710,655 MIF; \$439,098 Counterpart)

3.4 This component would staff and put into operation the basic network of centers that would deliver the defined services and products of the SIE. There would be three full-service offices of the intermediation service, meaning offices where workers and managers could walk-in and receive one-on-one service with technical personnel including, for example: skills assessments, discussing employment opportunities listed on the service, and learning how to access and utilize the training and employment registries. There would be one central office in San Salvador that would handle both clients and overall administration of the SIE. There would be one Western and one Eastern regional office. All are rented facilities. This component would finance the installation and operation of the

offices, including technical personnel; training; provision and installation of equipment and software; and support materials.

- 3.5 Technical personnel would work with workers in assessing their skills and finding an appropriate employment match and with employers in identifying more precisely the personnel needed and providing a screening function for appropriate candidates. These offices would also be able to collect data and information on labor market needs of local employers. This data would be useful as well to the Ministry of Labor and INSAFORP to help shape more targeted labor market policies and training on a national basis.
- 3.6 It is not contemplated that the basic SIE model would expand administratively more than these three full service centers. Rather the growth of the system would rely on two market-driven mechanisms. First, the service would expand its reach overtime through developing private satellite offices – computer outlets or mini-offices – that would provide on-line access to the national service. The satellite system would be introduced on a measured and monitored basis in the second and third years of the project under Component 3. They would be developed through partnership agreements and situated in locations to capture particular employer or worker demand, such as in training institutions, Chambers of Commerce, or union offices. The partnership agreements would govern the access, maintenance, and oversight of the mini-offices to insure the offices are well maintained and that questions from users can be responded to. The satellite mini-offices, properly managed, offer the opportunity to make more vibrant and demand-sensitive the SIE at lower levels of cost.
- 3.7 Clients will also be able to access the service through a second, market-driven mechanism. The basic registries (employment and training) would be available on line, via the Internet. As connectivity in El Salvador grows, an increasing proportion of clients could access the system from their homes, offices, or computer centers. The web-based system, understandably, would only reach select segments of the market but on a very cost-effective basis. The Central Office would be responsible for maintaining strict quality control over the web-based system.

3. Component 3. Promotion, Consolidation and Monitoring of the SIE
((\$392,157 MIF; \$122,729 Counterpart)

- 3.8 This component provides for specific activities to promote and consolidate the SIE model within the private sector and expand its coverage nationally. This includes three principal activities. First, the project will finance the design and implementation of a publicity campaign to advertise and promote the service to workers and firms. The publicity campaign will include the preparation of promotion materials, media advertisements, and the development and updating of the SIE web page.

- 3.9 Second, a key factor in insuring the consolidation and success of the SIE is that increasing numbers of employers register available jobs with the service and utilize it to find employees. Rather than rely just on employers walking in the door, or responding to advertisements, the project contemplates creating a direct outreach program to go directly to the private firms in this pilot phase. In this second consolidation activity, the project would support the training and development of a cadre of up to five private sector liaison officers or promoters who would be trained to go on-site to firms and work directly with employers to: (i) assess their particular employment needs; (ii) register their open positions within the SIE; (iii) help firms review and select appropriate personnel; and, (iv) orient firms to available training in their area that might meet their needs. Training of the promoters would be contracted with private providers, using materials developed by the project. The liaisons would likely specialize in key industrial sectors or areas of the country with particular demand for the service, e.g. agro-industry, construction. The liaison/ promoters would be specialized in both sectoral needs and local training availability. Specific work goals and targets of firms reached and jobs listed would be set to guide the liaisons work plans. The liaisons would physically work out of and support the regional centers. The specialized personnel for the promotion activity are not expected to be a permanent feature of the service. Rather it offers the critical early “push” to increasing private sector knowledge and usage of the service that is key for its long-run viability.
- 3.10 The third key consolidation activity would be in the training, follow-up and equipping of the emerging satellite network. As described in 3.6, the basic SIE model contains a structure of three full service centers which would be supported, on a controlled and measured basis overtime, in Component 3 by a network of satellites or mini offices where firms and workers could access the service through computer terminals. As executing agent, FEDISAL would manage the full service centers and the satellite network. The project would finance technical oversight of the satellite network, including training personnel to answer questions and service the computers in satellite locations. Training would either be in-house or contracted to private trainers. The satellites, or mini-offices would expand the range of clients accessing the national training and employment registries at greater efficiency and with more refined targeting to client demand, e.g. capitalizing on demand from recent trainees in a training institute or a business association. Satellite or partner agreements could also be reached with private sector firms who serve a more specialized segment of the labor market, e.g. firms that do placement of construction or agricultural workers, those that screen applicants for technology-based jobs or administration.
- 3.11 The service would maintain a monitoring and supervisory capability of its clientele –the firms and workers—utilizing a database of the key attributes and performance of its clients. Close monitoring and supervision to monitor and measure achievement of key project benchmarks for placement in firms and training, placement by method (e.g. promoters, walk-in centers) and number of workers inscribed in the system (see 7.1). Among the benefits of data collection

on all clients is to enable the service to readily identify underserved populations and firms and to provide information to continually refine and update its products to meet client needs. This approach is useful to help insure the system meets the needs of both male and female workers and disadvantaged workers on an equivalent basis, contributing more fully to firm growth. Both during the three-year pilot phase and thereafter, the SIE will need to continually innovate to reach underserved populations of both workers and firms, for example, by providing mobile offices on-site that reach female or migrant labor or specific outreach to clients through community or town centers.

- 3.12 In subsequent years, the SIE's product and utility could be further enhanced as the country moves to develop a system of labor skill standards. Currently there is no system in El Salvador to classify, test, and certify job skills in the labor market. The Ministry of Labor with the interest and support of INSAFORP has made a separate request for a MIF operation in late 2001 to pilot the development of labor skill standards in a small number of key sectors committed to such standard setting. (A full-fledged skill standards system would realistically take 5-15 years). This project is in the early stages of project identification. As a skill standards system develops overtime, it can be put into practice and diffused more readily with a labor intermediation system in place. Specifically, the intermediation system would serve as a vehicle for using such standards in hiring decisions and diffusing more widely in the country the utility of such skill standards. An operational intermediation system would thus serve to accelerate and deepen the adoption of skill standards among employers and workers.
- 3.13 **Sustainability.** The SIE would engage in planning and design for further expansion of the system and building its long-term sustainability beginning in the second and third years of the project. The foundation of this sustainability is the ability of the service to be self-financing to the maximum extent possible through two methods: (i) fees collected for specific services; and, (ii) contracts and agreements with external entities. It is important to emphasize that as a pilot effort the SIE should be given the first year to establish its market presence, reputation, and basic core services. In the second year of the project, the SIE will begin experimenting with a schedule of fees for its services, testing and studying market prices and demand for specific services. This fee experimentation would be under review, testing, and expansion during the life of the pilot.
- 3.14 To complement the fee structure, the SIE would seek as well to sell its services to both public and private entities. There are three target groups for the contracting of services. These client groups are: private firms (e.g. contracts of specialized placement/candidate review services; training matching/facilitation), international donors, and national and local agencies (e.g. the Ministry of Labor for specialized services for hard-to-reach workers). The Ministry of Labor, INSAFORP, and FEDISAL have already initiated discussions with other potential entities and agencies interested in contracting the services the SIE would offer after its initiation. The executing agent, FEDISAL, has substantial prior experience in cost recovery in its projects, in charging its consulting and training services directly to

recipients, and in recovering 100% of the costs of specialized training. An interinstitutional advisory committee (see par. 4.3) would provide important guidance as well to FEDISAL in advancing the long-term sustainability of the SIE. It is important to emphasize that the sustainability strategy is through both fees and the contracting of services; fees alone are unlikely to cover all costs in a three-year period. The intention and design of the project is that the SIE operate and sustain itself under these two market principles after the pilot phase of MIF investment. The project sets as measureable goals the achievement of 50% recovery of administrative costs by the end of the second year and 100% recovery by the end of the third year. The year two goal, in particular, sets up an important benchmark for assessing progress on self-sustainability within the pilot phase. With an assessment of progress-to-date at the end of year two, the executing agency, supported by the Ministry of Labor and INSAFORP, would seek to implement additional steps to speed the achievement of the project's self-sufficiency goals.

IV. PROGRAM EXECUTION

A. Executing Agency

- 4.1 The proposed executing agency of the project is FEDISAL, *Fundación para la Educación Integral Salvadoreña*. FEDISAL is a private, non-profit institution created in 1993 by prominent businessmen and members of the Salisian community to contribute directly to the economic and social development of El Salvador. FEDISAL has an outstanding reputation as a highly competent, respected institution among private, public, and civil society institutions. This credibility and competence across sectors is essential in carrying out a labor intermediation service.
- 4.2 In its project execution, FEDISAL has received particular recognition for the high standards and qualifications of its staff and work. Since its inception in 1993, it has managed, on average, a budget of US\$2.5 million annually. It has 12 staff under its own resources and is currently managing 32 short-term staff/consultants in specific projects. It has project management experience with a number of national and international agencies, including the IDB (prior), United Nations and Ford Foundation. Furthermore, it has a track record in cost recovery mechanisms, in selling its services to clients, and in particular, recovering 100% of its costs for specialized training which are particularly relevant to this project and the prospects for long-term sustainability. FEDISAL has received particular recognition for the efficient execution of an earlier MIF project: "Private sector/NGO training consortium" whose final disbursement was in 1999. This project required FEDISAL to lead the development of new training curriculums and training internships for youth among six non-governmental training (NGO) providers. This project is fully disbursed, met its program objectives, and the evaluation is completed. Both the evaluation report and the experience of the IDB Representation in El Salvador indicate that FEDISAL did a highly competent job

in managing a complex project, that its efforts spurred greatly improved institutional coordination among training organizations who had no experience working together, and that they were able to introduce innovations in the project requested by the private sector within the project's budget. This proposal for a national labor market intermediation service was one requested directly by the national entities and FEDISAL and is not linked to the completed MIF project which focused on training and institutional development of NGO training institutions. Overall, this project represents a unique proposal of a system that has greater application to Central America at large. FEDISAL is uniquely positioned as the resident institution with the private sector reputation, experience, and institutional support to carry out such a project.

- 4.3 FEDISAL will have full operational responsibility to execute the service based on private sector principles. The technical execution of the service will be supported by an inter-institutional committee comprised of INSAFORP and the Ministry of Labor. The Committee will provide overall policy direction and advise to FEDISAL and seek to insure the service maintains close response and coordination with national training and labor market policies and the needs of the private sector. The council will also provide particular oversight in insuring the building of the long-term sustainability of the service. The Committee as well will constitute a wider advisory council comprised of key representatives of the private and relevant social (e.g. labor, productive sector/civil society, other training institutions) actors to advise the overall direction of the service and insure the continual input and attention to the needs of the private sector.
- 4.4 **Procurement of Goods and Services.** FEDISAL will be responsible for procuring the goods and services necessary for the project in accordance with the Bank's procurement rules, procedures and policies and with the MIF's eligibility criteria for contracting.
- 4.5 **Reports.** FEDISAL is responsible for the monitoring and preparation of semester reports for the project. Each progress report must document the activities accomplished during the six-month period and, in particular, analyze the development and use of each of the services of the SIE and indicate the progress made in the benchmark indicators, including to the financial sustainability indicators at the end of years two and three. The progress report will also include the work plan over the next six months and plans for the expansion of coverage of the client base of the SIE. The progress reports must be presented to the Bank within 60 days of the end of the semester (six-month period). Within three months of the project's conclusion, the Bank will present to the MIF the Project Conclusion Report.

B. Project Organization

- 4.6 The project would be first organized around three full service "walk-in" regional centers. A worker seeking employment or training, or a firm seeking new personnel could visit or phone one of the regional centers seeking one-on-one

assistance. A technical counselor would register the worker or firm and seek to find the best match for their needs from the SIE's database and contacts with the private sector. A small administrative staff would be located in the Central (San Salvador) office along with technical personnel to attend to SIE clients. There would be a Director of the Service, accountant, office assistant, and two secretaries. The reach of the three full service centers would be expanded overtime by the creation of a network of approximately 15 satellite mini-offices by the end of the third year.

- 4.7 The Director of the SIE, supported by FEDISAL management, would be responsible for the administration of the three full service centers, oversight of the satellite network, and leadership in fulfillment of the SIE's objectives. The first six months of the project will consist of a design of the system and the individual services. During this period, a Director of the SIE will be selected under an open competitive bid process.

C. Accounting and Auditing

- 4.8 FEDISAL will be responsible for establishing and maintaining accounting and financial controls and adequate internal auditing of the project, including the processing of requests for disbursements and the respective substantiation of expenditures in accordance with the Bank's disbursement procedures. The Central office will maintain a full-time accountant dedicated to the SIE. The project contains financing of annual external audits and a final external audit at the end of the three-year execution period. The Executing Agency must present the final audited financial statements to the Bank within a period of 90 days from the last disbursement date. The external audit costs will be financed from MIF resources for the project.

D. Execution Timeframe

- 4.9 An execution period of 36 months is contemplated with an additional six months to provide the final evaluation of the project. The initial design of the SIE its instruments, services, computer systems, and operational manuals is expected to take six months, with the doors of the service open to clients in month seven.

E. State of Project Preparation

- 4.10 This project is in a highly advanced state of preparation due to the design work done by the executing agent, FEDISAL, and the high level of participation of both the Ministry of Labor and INSAFORP. An inter-institutional agreement establishing in greater detail the cooperation and support of INSAFORP and the Ministry of Labor to the project has been signed by both parties and the inter-institutional committee constituted. The inter-institutional agreement further defines the support that INSAFORP and the Ministry of Labor will provide in the coordination of national employment and training policies with the SIE, in promoting the financial viability of the service, and in promoting strategic

alliances with the private sector, unions and other national entities. The project team has analyzed, as well, the capacity of FEDISAL to comply with its obligations to provide counterpart funding. FEDISAL is currently negotiating a services contract with INSAFORP, under which it will provide training referral, information, and placement services in an amount approximately equivalent to \$700,000 over three years. Based on this, FEDISAL's capacity to provide counterpart resources for the project has been considered satisfactory by the project team with the condition that prior to first disbursement FEDISAL will provide to the satisfaction of the Bank evidence of a duly executed services contract with INSAFORP. This services contract has advantages in that it establishes from the outset of the project private sector mechanisms to support its operation. The Executive Council of INSAFORP has provided a separate letter of support for the project and its financing.

- 4.11 In addition, the Ministry of Labor has led consultations on the project with the labor and social and private sectors through its national labor advisory board, *Consejo Superior de Trabajo*. Consultation with private sector representatives has also included through INSAFORP's board, which approves the financing and support to the project. Private sector participation will continue to be incorporated through an ongoing advisory function to the project.

F. Beneficiaries

- 4.12 The direct beneficiaries of the project are the firms and workers directly utilizing the services of the SIE. The project has as its objective serving, over three years, at least 5,000 firms and registering over 39,000 workers for employment.

V. COSTS AND FINANCING

- 5.1 The following table presents the three-year project budget, totaling \$2.33 million. Of this sum, 70% is requested for MIF financing (\$1,633,557) and 30% (\$699,887) from counterpart. Counterpart would be provided by FEDISAL in the form of cash support (\$649,887) and in-kind contributions (\$50,000). FEDISAL would also contribute through commitments to the collection of user fees (in addition to counterpart levels) and commitments to raise or contract out services of the SIE.

Table 1. Budget

Components and Budget Areas	Total	MIF	Counterpart	
			CASH (INSAFORP)	IN-KIND (FEDISAL)
I. Component 1. Development of SIE Services	185,272	181,272	0	4,000
II. Component 2. Implementation of Basic SIE Model	1,149,753	710,655	439,098	0
III. Component 3. Promotion and Consolidation of SIE	514,886	392,157	122,729	0
IV. Evaluation and Monitoring	90,872	90,872		
V. External Auditing	25,000	25,000		
VI. Administration	217,661	83,601	88,060	46,000
SUBTOTAL	2,183,444	1,483,557	649,887	50,000
VII. Contingencies	150,000	150,000		
TOTAL	2,333,444	1,633,557	649,887	50,000
		70%	27.85%	2.15%

- 5.2 User fees, including contributions from private sector firms utilizing the services of the centers will be introduced in the second year by FEDISAL and developed and refined during the pilot stage to contribute to its long-run sustainability. As per MIF policy, however, these fees cannot be counted towards counterpart of the project, but it is important to understand the fundamental role that self-financing will play in the long and medium-term sustainability and viability of the service as well as a further counterpart contribution by FEDISAL.

VI. PROJECT JUSTIFICATION AND RISKS

A. Justification

- 6.1 The project would pilot a national training and employment intermediation system whose intended results would include: to reduce transaction costs for firms, improve the match of employees to new employment, reduce unnecessary job turnover, refer workers to appropriate training, and provide training institutions with up-to-date information on employer skill requirements. These contributions are intended to improve the performance of the labor market serving El Salvador's private sector, providing them with a skilled labor force more closely aligned to private sector requirements. The piloted system would recover an increasing proportion of costs from user fees, sustaining itself beyond the life of the project through fees and selling of services. The service is intended to fit an important labor market need in El Salvador that is both inadequately and poorly done by the public sector, and which will have greater long-run credibility, sustainability, and utility if managed in the private sector. The experience of this privately managed pilot service in El Salvador has important implications for other Central American economies facing similar labor market conditions. The results of this project will be discussed and evaluated at the regional level, in particular through the meetings of the Central American ministers supported by the BID/USAID/SIECA Labor Market Modernization project.

B. Risks

- 6.2 The principal risk in any labor intermediation service is in garnering significant levels of private sector participation and a good early reputation so that a critical mass of job openings are listed and placed through the service. Workers too would lose interest in an intermediation service with few real opportunities for employment. The project has taken many steps to insure this private sector participation. First, by utilizing a respected executing agent who has the support of both the private sector and key public sector institutions. Second, in developing publicity campaigns directed to private sector users. Third, by introducing systems of direct outreach to private firms and satellite offices which respond to private sector demand. And fourth, in designing an administrative system oriented to streamlined procedures and private sector practices attractive to private sector clients. A second key issue is incorporating sound inter-institutional mechanisms for the cooperation and support of the Ministry of Labor and INSAFORP to get the maximum effectiveness out of the project (e.g. linkage of the project's information base of INSAFORP, clear lines of authority for FEDISAL in managing labor intermediation as a private service). The project team has been impressed by the strong support and participation of both the Ministry of Labor and INSAFORP. To minimize risks to initiation of the SIE (and thus reputation with the private sector), the principal institutional agreement needed for the smooth inter-institutional cooperation has been signed.

VII. MONITORING AND EVALUATION

A. Monitoring and Project Goals

- 7.1 The project is designed to provide for a continuous system of data collection and monitoring of key indicators of both the workers and firms utilizing the service. The monitoring system and database will be designed by an outside firm in the first six months of the project. The intention is that the monitoring design will insure from the outset the collection of the appropriate needed to monitor both the short and longer-term objectives of the project. Among the input factors collected will be: the type of workers, skill level/profession, education, gender and ethnic background utilizing the service and what services they most demand. For firms, data on their size and industrial sector, and the type of positions they are seeking will be collected. As well, the monitoring data base will record the number and type of workers registered in the system; firms listing positions in the job service; the placements of workers in firms in the service from two separate sources (through the promoters or by contact with the regional office), and referrals of workers to training. Benchmarks have been established for workers inscribed in the system and placements in jobs and training for each month of the project, so that progress can be measured. These benchmarks will measure the progress of the SIE towards achieving the established three-year goals of the program.

Specifically, these goals are to achieve by the 36th month of the program³, a total of more than 39,000 workers inscribed in the system; to fill 70% of the jobs listed with the service or over 9,400 workers placed in Salvadoran firms; and to refer over 2,800 workers to training (10% of client base). These goals relate not to the average over the period, but the level achieved by the 36th month of the service. The project also sets benchmarks for self-financing: 50% coverage of administrative costs by the end of the second year, 100% by the end of the third. The SIE will also seek to insure its client base mirrors the current workforce, in particular, to insure that it serves at least the same percentage of female workers as in the workforce,⁴ and take corrective actions (e.g. targeted publicity campaigns) if it does not. The monitoring system will play a number of key roles: providing up-to-date information on underserved populations and firms so that the SIE can be more proactive in seeking to expand its market and reach; providing periodic reports on the achievement of goals and the pace of development of the SIE to allow early corrective actions to be introduced early on; and, providing the core data base for program and periodic evaluations. .

B. Evaluation

- 7.2 The project will finance both a mid-term and final evaluation. The evaluations will be contracted to an outside firm, distinct from the firm that has set up the monitoring system. The evaluations will draw on the baseline monitoring data and be tied to the indicators established in the logical framework (Annex I) on both project performance and financial sustainability. The evaluations, as distinct from the monitoring system, will look more at the potential labor market impact of the SIE, for example, how well it does in placing workers in jobs or training, or how well it reduces transaction costs for firms and meeting firm needs. The evaluations will likely need to be supplemented with smaller surveys of clients, asking more targeted questions on the use and utility of the service to provide more detailed information than available from the SIE database. Given the costs of such surveys, the intent is to target select surveys to representative samples of the client population to ascertain key impact information. It must be stressed from the outset that many factors influence whether a worker is hired by a specific firm, how long they stay, or whether a firm has jobs they can list with the service. The SIE cannot guarantee the performance of the worker on the job and is subject to and responds to the overall performance of the economy. If the economy is in significant recession, the SIE can only respond to the limited employment opportunities available. The SIE's intent is, under conditions of at least limited

³ 30th month of the operation of the SIE after 6th month design period. These are the program goals for the last month of the project, not the average over the 30 months.

⁴ This monitoring benchmark will be set to the most recent figure for the percentage of female workers in the national labor force.

economic growth, to increase the likelihood of a successful and more lasting hire, reduce the time spent unemployed, and, overtime, provide more systematic information so that the supply of training courses better meet private sector demand.

VIII. EXCEPTIONS TO THE BANK POLICY

- 8.1 None.

IX. SPECIAL CONTRACTING CONDITIONS

- 9.1 INSAFORP, the Ministry of Labor, and FEDISAL have worked steadily to build a supportive framework for execution of the project. In addition to the standard Bank conditions for disbursement, the Bank will require two conditions of FEDISAL as provided for in the Executive Summary and par. 4.10: one, present evidence of secured counterpart financing for the project through a signed service contract with INSAFORP and two, present an action plan for the activities of the first six months of the project. The parties have been working towards the development of this services contract.

LOGICAL FRAMEWORK
EL SALVADOR: LABOR INTERMEDIATION SERVICES
(TC-ES-00-03-01-6)

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>AL: Salvadoran firms operating at greater efficiency in terms of hiring and acquiring new workers; workers finding new and appropriate employment and training.</p>	<p>Within three years, at least 5,000 firms satisfactorily receiving services from the SIE and 39,000 workers registered in the service. Specifically, by end of third year, 1100 persons/month, or 9,400 persons total, placed in employment in private firms by SIE. By end of third year, at least 380 workers/month, a total of 2,800 are referred to and enroll in new training.</p>	<p>-SIE monitoring system, analysis of indicators -mid-term and final evaluation reports submitted to the satisfaction of the Bank</p>	<p>Conditions of expanding employment Conditions of political stability at national and regional levels</p>
<p>PROPOSE: The Salvadoran labor market operating at greater efficiency more closely meeting private or employment needs through a labor intermediation service.</p>	<p>Above indicators on inscription, employment, training, and placement are met; SIE fills 70% of the jobs employers list with service; evidence that new training courses have been introduced in response to employer demand generated by SIE.</p>	<p>Analysis of monitoring indicators; mid-term and final evaluations submitted to the satisfaction of the Bank Surveys of workers and firms served by the SIE</p>	<p>Conditions of at least limited economic growth and political stability</p>
<p>COMPONENTS</p>			
<p>New instruments and services designed to facilitate employment and training placement in the Salvadoran labor market</p>	<p>1. Report on the review of international experience in labor intermediation reviewed for design phase; operations manuals completed for each of the services of the SIE and the</p>	<p>1. Report and manuals presented to the satisfaction of the Bank; software developed, tested, and in use.</p>	<p>1. Availability of applicable international models</p>

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	system overall; software developed and in use for the SIE		
Three full-service centers open and receiving clients providing requested services of job placement and screening, training referral, and skills assessment.	2. Three offices in operation. At end of three years, 39,000 workers inscribed in service, 2,800 placed in training, 9,400 placed in jobs in firms.	2. Monitoring reports presented by the SIE; physical monitoring of centers	
SIE consolidated and expanding coverage of working population and firms	3. Indicators for placement met in first, second, and third years of project. At least 40% workers served are female, equivalent to % females in labor market. Goals for financial sustainability met: 50% recovery of administrative costs by end of second year; 100% by end of third year.	3. Reports of SIE monitoring system; mid-term and final evaluations	3. Expanding employment conditions, firms and workers willing to pay for and contract SIE services
ACTIVITIES			
Research experiences in foreign countries.	1.1 Report and analysis of the incorporation of foreign experience in the design of the SIE.	1.1. Presentation of analytic report to satisfaction of the Bank	1.1 Availability of applicable models.
Design of Information system. Design of specific services to be provided by the SIE. Design of operations procedures.	1.2 Designed and tested software. 1.3 Manual of each of the services completed. 1.4 Operations manual of SIE completed	1.2 Tested software in use in SIE. 1.3 Presentation of services manuals to the satisfaction of the Bank 1.4 Presentation of SIE operations manual to the satisfaction of the Bank.	
Preparation and training of SIE	2.1 Trained professionals (13	2.1 Evidence of completed training	

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>personnel. Installation of a central office.</p> <p>Installation of two regional offices.</p> <p>Requests for services received from workers and processed by three offices</p> <p>Requests from firms inscribing available jobs with service</p>	<p>completing training course).</p> <p>2.2 Central office open and receiving clients</p> <p>2.3 Regional offices (2) openand receiving clients.</p> <p>2.4 At least 39,000 workers registered in system in 3 years; 2,800 referred to training and 9,400 placed in firms</p> <p>2.5 At least 5,000 businesses served in three years, majority through direct contact with centers</p>	<p>and course evaluation.</p> <p>2.2 SIE monitoring system reports and physical inspection.</p> <p>2.3 SIE monitoring system reports and physical inspection.</p> <p>2.4 SIE monitoring system reports; mid-term and final evaluations</p> <p>2.5 SIE monitoring system reports;mid-term and final evaluations</p>	<p>2.4. Growing economy; disposition of INSAFORP and other training institutions to receive referred trainees from SIE</p>
<p>Promotion and Publicity campaign to clients.</p> <p>Creation and training of a business liaison/promoters corps.</p> <p>A network of satellite mini-offices utilized by worker and firm clients, overseen by the SIE.</p>	<p>3.1 Products and tools of a campaign consistent with the goals planned for number of registered workers and businesses.</p> <p>3.2 Recruitment of companies by liason/promoters to assist in meeting at least 40% of the proposed goals for business employment registration.</p> <p>3.3 Periodic reports of the monitoring system, intermediate report and a final evaluation report of the project.</p>	<p>3.1 Evidence presented of publicity campaign, pamphlets, and promotional materials.</p> <p>3.2 Reports from monitoring system on source of contact with SIE; data from surveys of clients.</p> <p>3.3 Periodic reports of SIE indicating agreements reached with specific satellite partners; 15 satellite partnerships established by third year of the program.</p>	<p>3.2 Growing economy</p>
<p>Development and implementation of a monitoring and evaluation system.</p>	<p>4.1 Monitoring benchmarks in operation and in evidence from periodic reports.</p>	<p>4.1 Contract with firm to create monitoring and evaluation system entered into and completed; monitoring, mid-term and final evaluations presented to the satisfaction of the Bank.</p>	<p>4.1 Client firms and workers will to provide input data for monitoring system; ability to track workers and firms six months after delivery of SIE services.</p>

PROPOSED RESOLUTION

**EL SALVADOR. NONREIMBURSABLE TECHNICAL COOPERATION FOR A
LABOR MARKET INTERMEDIATION SERVICES PROJECT**

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 Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the "Fundación para la Educación Integral Salvadoreña" of El Salvador and to take such additional measures as may be pertinent for the execution of the project memorandum referred to in Document MIF/AT- with respect to a technical cooperation for a labor market intermediation services project.
2. That up to the amount of US\$1.633.557, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Human Resources Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.