

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

REPUBLIC OF CHILE

PROGRAM TO SUPPORT SENCE'S EFFECTIVENESS

(CH-L1064)

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	
1.	Annual work plan (AWP) for the first 18 months of execution IDBDOCS-#36880840-Plan Operativo Anual (POA) - CH-L1064
2.	Monitoring and Evaluation Plan Confidential document *
3.	Procurement Plan IDBDOCS-#36880817-Plan de Adquisiciones - CH-L1064
OPTIONAL	
1.	IDB Country Strategy with Chile http://www.iadb.org/en/countries/chile/country-strategy.1093.html
2.	Sector Note, G. Rucci 2011 IDBDOCS-#36880794-Nota Técnica Sectorial - Mercado Laboral en Chile
3.	Bibliography IDBDOCS-#37101368 Bibliografía
4.	Institutional and management diagnosis of SENCE IDBDOCS-#36879342-Diagnóstico institucional, organizativo y de gestión del SENCE
5.	Note on vocational training in Chile by J. Rodríguez 2012 IDBDOCS-#36879423-Un Diagnóstico al Sistema de Capacitación en Chile
6.	Note on Productivity, J. Rodríguez 2012 IDBDOCS-#36879312-Productividad, Mercado del Trabajo y Capital Humano en Chile
7.	Program Economic Analysis Report 2012 IDBDOCS-#36879282-Análisis Económico de Programas de Capacitación Laboral en Chile – CH-L1064
8.	Technical Note on Training, G. Rucci 2010 IDBDOCS-#36880808-Chile - Capacitación en el Sistema de Formación Continua
9.	Technical Note on Training, D. Kaplan 2012 IDBDOCS-#36889572-Una nota sobre el rol del Estado en la capacitación laboral en planta
10.	Technical Note on Intermediation, J. Mazza 2011 IDBDOCS-#36861466-Fast Tracking Jobs Advances and Next Steps for Labor Intermediation Services in Latin America and the Caribbean
11.	Progress monitoring report IDBDOCS-#36900499-PMR CHL1064
12.	Environmental Safeguard Forms IDBDOCS-#36888150 Salvaguardias SSF y SPF

(*) At the request of the borrowing country, the information contained in this electronic link will not be disclosed. “The non-disclosure of this information is in accordance with the country-specific information exception in paragraph 4.1 i of the Bank’s Access to Information Policy.”

ABBREVIATIONS

CASEN	Encuesta de Caracterización Socioeconómica Nacional [National Socioeconomic Characterization Survey]
ECLAC	Economic Commission for Latin America and the Caribbean
FONCAP	Fondo Nacional de Capacitación [National Training Fund]
FPT	Programa de Formación en Puestos de Trabajo [Workplace Training Program]
LIBOR	London Interbank Offered Rate
MTPS	Ministry of Labor and Social Welfare
OECD	Organisation for Economic Co-operation and Development
PEP	Program execution plan
PEU	Program executing unit
PISA	Program for International Student Assessment
SENCE	Servicio Nacional de Capacitación y Empleo [National Training and Employment Service]
TFP	Total factor productivity

PROJECT SUMMARY

REPUBLIC OF CHILE PROGRAM TO SUPPORT SENCE'S EFFECTIVENESS (CH-L1064)

Financial Terms and Conditions						
Borrower: Republic of Chile Executing agency: Servicio Nacional de Capacitación y Empleo [National Training and Employment Service] (SENCE) – Ministry of Labor and Social Welfare (MTPS)			Flexible Financing Facility*			
			Amortization period:		8 years	
			Original weighted average life		6.25 years	
			Disbursement period:		4 years	
Source		Amount	Grace period:		4.5 years	
IDB (Ordinary Capital)		US\$7,500,000	Inspection and supervision fee:		**	
			Interest rate:		LIBOR	
			Credit fee:		**	
Local		US\$3,950,745	Approval currency:		U.S. dollars from the Ordinary Capital	
Total		US\$11,450,745				
Project at a Glance						
Program objective: The objective is to support MTPS’s efforts to extend the coverage and boost the effectiveness of SENCE’s training and intermediation activities. This will be achieved through three main pillars: (i) strengthening the MTPS’s steering capacity and SENCE’s regulatory capacity as regards labor intermediation and vocational training; (ii) improving the quality and relevance of SENCE’s training programs; and (iii) improving SENCE’s administrative management. The expected outcome responds to the objective measured in terms of: (i) an increase in the difference in average wages between persons who used a SENCE service and those who did not; (ii) the percentage of persons who used a SENCE service who earn higher wages or are in formal employment (compared to the average for a comparable group and/or a preceding period); and (iii) the percentage of persons trained who underwent needs diagnosis prior to receiving training (see paragraph 1.20).						
Special contractual conditions: The setting up of the program executing unit at SENCE, in accordance with the organizational profile and staffing previously agreed on with the Bank, will be a condition precedent to the first disbursement of the loan (see paragraph 3.2).						
Exceptions to Bank policies: None.						
Project qualifies as:		SEQ []	PTI [X]	Sector [X]	Geographic []	Headcount []

* Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, and currency and interest rate conversions, subject in all cases to the final amortization date and the original weighted average life (WAL). When considering such requests, the Bank will take market conditions into account, along with operational and risk-management considerations.

** The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the corresponding policies. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Background and challenges

- 1.1 **Economic growth and productivity.** Chile has undergone significant economic development over the last 20 years, and the economy grew by 7% in 2011. It has an aggregate unemployment rate of 8.1% (2011) and growth forecasts are favorable (4% to 5% for 2012-2105).¹ However, productivity growth has stalled and income distribution inequity remains high (with a Gini coefficient of 0.55).² The 1990s witnessed rapid economic growth (at an annual rate of 6%), low unemployment rates (fluctuating around 7%), and a substantial reduction in poverty (from 38.6% at the start of the decade to 20.2% ten years later). Part of this success was related to the substantive macroeconomic reforms in the 1980s and 1990s (De Gregorio, 2005). However, the following 10 years contrasted with the success of the period from 1990 to 1998. Between 2000 and 2010 the economy never regained the dynamism of the previous decade (growth averaged 3.8% a year), the unemployment rate took more than eight years to return to its 1990s average (registering an average of 9%), and the poverty rate fell by just five percentage points.³ If the average growth rates of the 1990s had been maintained, per capita income would have been 11% higher than it is today (with the corresponding impact on poverty and other welfare indicators).
- 1.2 Differences in the accumulation of capital and labor factors of production are insufficient to explain the drop in the growth rate. Thus, the performance of productivity appears to be key (Pagés 2010; Beyer and Vergara 2002; Gallego and Loayza 2002; Corbo and Tesada 2002; Fuentes, Larraín and Schmidt-Hebbel 2006). The strong economic growth of the 1990s was accompanied by an increase in total factor productivity (TFP) compared to other economies (in developed countries and in the region). TFP slowed towards the end of the decade: whereas in the 1990s it underwent a sustained average rise of 3.1% a year, from 2000 to 2010 TFP dropped at a rate of 0.5% a year. Thus, the evidence suggests that Chile reached a level of development such that the mere accumulation of factors has ceased to be a source of high growth potential, with productivity now being the key factor (Rodríguez 2012).

¹ Informe de Política Monetaria [Monetary Policy Report], March 2012, Central Bank of Chile. No unemployment forecasts are available from official sources. The methodology was changed in March 2010, discontinuing the unemployment data series (National Employment Survey vs. New National Employment Survey). This makes unemployment difficult to forecast as the New National Employment Survey series is still short.

² See Rucci 2011, Velasco and Huneus 2011 for details of how income inequity has evolved. National Socioeconomic Characterization Survey (CASEN) 2009.

³ Slower growth meant a significant deceleration in Chile's convergence with levels of development of OECD countries as a whole. In comparative terms, Chile grew significantly faster than the OECD (an average of nearly three percentage points) in the 1990s. However, between 2000 and 2009, while this difference remained in Chile's favor, it shrank to under one percentage point.

- 1.3 **Human capital, labor market performance, and labor productivity.** The slowdown in TFP was matched in the labor market by a drop in labor productivity growth. Despite the substantial expansion of education coverage in Chile (Urzúa 2012), the slowing of productivity growth is a permanent feature of the labor market (Rodríguez, 2012).⁴ In the 1990s Chile's real hourly wage growth exceeded that of the OECD (3.2% compared to 1.8%).⁵ Nevertheless, a decline in real hourly wage growth was apparent from 2000 on (1.2% in Chile and 2% in the OECD), consistent with falling TFP and slackening growth. Real wages trended downwards between 2000-2010, and this trend remains even when the probability of being employed is taken into account. Subsequently, slow growth in productivity and wages could explain the low rates of employment and labor market participation vis-à-vis OECD countries and those of the region. Chile's employment rate from 2000 to 2010 was 55.8% (compared with 65.4% in the OECD), and the labor market participation rate was 61.8% (70.2% in the OECD and 66% in Latin America).⁶
- 1.4 **Chile's labor market indicators vary widely according to level of education.** In 2009, for individuals ages 25-60 who had not completed their secondary schooling (3,275,394 persons), the participation rate was 64.5% (compared with 88.8% for those having completed tertiary education, i.e. 1,362,114 persons); the employment rate reached 59% (83.5% for those having completed tertiary education) and the unemployment rate was 8.5% (6.1% for those having completed tertiary education). Young people, women, and low-skilled adults are the most vulnerable groups in the labor market. Table I.1 shows the main differences.^{7,8,9}

⁴ There are a number of factors explaining how the Chilean labor market has performed (economic cycle in Cowan et al, 2005, labor law reforms in Bergoing, Morandé and Piguillem, 2005). However, assuming that long-term performance depends on the economy's long-term growth potential, the evidence is consistent with a fall in productivity followed by a rise in the natural unemployment rate (Rodríguez 2012).

⁵ Data source: National Statistics Institute (INE) and OECD.

⁶ OECD Employment Outlook 2010, ECLAC Statistics 2010, CASEN 2000-2009. Chile's labor force totals 7.9 million persons.

⁷ Vulnerability is characterized by one or more of the following: low participation, high unemployment, low employment, low productivity, or precarious working conditions, affecting the functioning of the labor market. Employment rates among women and young people ages 15 to 24 in Chile are 16 and 15 percentage points lower than the OECD averages. The participation rate for men in Chile is similar to that for the OECD (81% and 83%); nevertheless, in the case of women, it is 44%, compared with a rate of 62% for the OECD. By the same token, the participation rates for women and young people in Chile are nine and twelve percentage points lower, respectively, than the Latin American average (simple average). Over the period from 2000 to 2010, the unemployment rate among young people ages 20 to 24 was high compared to those of OECD economies (19% compared to 12%). The same was true of the 25 to 29 age group (12% for Chile against 8% for the OECD). Employment rates both by income quintile and educational level suggest that there are fewer opportunities for employment among the lower skilled and that these opportunities have diminished (Beyer 2011).

⁸ See Labor Markets Unit (LMK) technical note (2011) for more details and qualitative analysis, Rodríguez (2012) for quantitative details, and Huneus, C. and Velasco, A. (2011) for an analysis of income inequity.

Table I.1 Labor market performance indicators, 2000-2009 average

Indicators	Young people		Women		Adults		TOTAL		Total
	Secondary incomplete	Tertiary incomplete	Secondary incomplete	Tertiary incomplete	Secondary incomplete	Tertiary incomplete	Secondary incomplete	Tertiary incomplete	
Participation rate	66.5%	90.5%	42.1%	81.2%	64.8%	88.6%	64.9%	89.0%	72.7%
Employment rate	58.0%	81.4%	37.8%	76.4%	59.6%	85.1%	59.5%	84.5%	67.2%
Unemployment rate	12.7%	10.0%	10.4%	5.9%	8.0%	4.9%	8.4%	5.0%	7.5%
Real wages (\$/month) (US\$ 2009)	360.8	1,121.1	334.5	1,161.2	444.2	1,849.7	436	1,725	810.3
Population	324,921	213,461	1,800,625	621,550	3,083,360	979,802	3,408,281	1,193,263	7,349,379

Source: CASEN 2000, 2003, 2006, and 2009. Young people ages 25-29, women ages 25-60, and adults ages 30-60. Total ages 25-60 years.

1.5 Various factors influence the dynamics of productivity, ranging from those relating to the institutional framework or rules of the game (Acemoglu, Johnson and Robinson, 2005; North 1990) to those linked to the quality and quantity of human capital (Lucas 1988, Hanushek and Wöbmann 2007). Over the last 20 years Chile has also significantly improved its accumulation of human capital: 97% of the population ages 6 to 17 is enrolled in primary or secondary education and 42% of the population ages 18 to 24 is enrolled in tertiary education. Nevertheless, despite the high returns on tertiary education (20.1%), 84.8% of the population over 25 did not complete tertiary studies and 49.8% failed to complete their secondary education.¹⁰ Despite making major strides in increasing coverage, reforms of various educational institutions to raise quality are still pending (Bassi and Urzúa 2010; Urzúa 2012). Indeed, the potential impact on the Chilean economy of improving human capital could be considerable (Rodríguez 2012). Using Programme for International Student Assessment (PISA) measurements to approximate the stock of cognitive skills in 50 countries (including Chile), Hanushek and Wöbmann (2007) have estimated the causal effect of human capital on average per capita income growth between 1960 and 2000. The simulations for Chile indicate that if the country reached half the OECD figure, potential growth would increase by 2.6 to 3.4 percentage points a year (Rodríguez 2012).

1.6 In short, Chile has suffered a marked slowdown in labor productivity, which is reflected in its labor market. Similarly, the labor force shows mixed performance in the labor market, depending on level of education, age, and gender. Relevant and high quality human capital interventions have the potential to impact labor

⁹ The average participation rate for women is 58.8% (92.2% for men), dropping to 45% among those not having completed secondary education (80% among those not having completed tertiary education). CASEN 2009.

¹⁰ CASEN 2009.

productivity—particularly among low performing groups within the labor force—and ultimately reduce poverty and inequity.

- 1.7 **The National Training and Employment Service (SENCE) and the challenge of improving the labor force's performance.** In 2011 the State invested US\$364 million in the vocational training system to improve the situation of vulnerable sectors of the labor force, reaching 1,001,797 persons (12% of the labor force).¹¹ This investment is executed by SENCE, a decentralized, autonomous agency under the Ministry of Labor and Social Welfare (MTPS), with the primary aim of narrowing the skills gap affecting workers with low employment performance, by offering training options to people who have left formal education. MTPS sets national training policy, thus exercising a steering role over training policy (including policy design and evaluation), while SENCE is the executive body in charge of managing the vocational training system. This includes: (i) program design; (ii) outsourced program execution; and (iii) any actions needed to adequately regulate the training market (supervision, standard setting, etc.).¹²
- 1.8 Training is SENCE's core area, and it applies an indirect management model: training activities are designed and executed by private bodies—technical training organizations—contracted by firms or SENCE. Intermediation for contracting them is carried out primarily by technical training intermediation organizations. The training actions SENCE manages are financed from the tax exemption for training and National Training Fund (FONCAP) resources.¹³ Companies have no incentive to invest in non-specific training because they are unable to appropriate the benefits. This market failure would justify the use of public funds. The tax exemption enables companies to discount sums invested in training from their tax obligations (up to 1% of their payroll). SENCE regulates and supervises how this tax exemption, which accounts for 88% of the funds the entity mobilizes and 90% of the beneficiaries (although not necessarily the most disadvantaged) is implemented.¹⁴ The remainder of coverage corresponds to social programs targeting vulnerable groups (the main programs being the Workplace Training Program (FPT), the Vocational Training Program (PO), and the Active Worker Program

¹¹ SENCE manages public funds equivalent to 0.2% of GDP (a total of US\$379 million in 2011, of which US\$178 million are from SENCE's budget and US\$201 million from tax exemptions). SENCE's budget (US\$178 million) finances: (i) training actions managed directly by SENCE, but executed primarily through technical training organizations; (ii) labor intermediation actions; and (iii) subsidies for youth employment. The budget executed in training interventions corresponds to social programs (US\$95 million) and the tax exemption (US\$269 million). Regarding the scope for improvements to the labor force's performance, interventions for persons who have already left the educational system stand out, without overlooking the need to bolster the quality of the educational system.

¹² The law does not assign SENCE a substantive role in labor intermediation, beyond mentioning its role in supervising municipal labor intermediation offices—compliance with legislation and technical standards regulating their activities—and control and supervision of the body running the Bolsa Nacional de Empleo (BNE). See Grafe 2012 for details.

¹³ See Rodríguez 2012 and Grafe 2012 for details on programs and interventions.

¹⁴ An increase in the share of social programs so that they reach 30% of resources is envisaged for 2012.

(BTA)), covering just a small fraction of potential training demand: less than 1% of persons who have not got beyond secondary education (Rodríguez 2012). To date, SENCE has not run labor intermediation activities, i.e. activities to inform and guide the labor force. Activities of this kind can improve the functioning of the labor market and help extend coverage and boost the effectiveness of SENCE's services, particularly in the case of the most vulnerable workers (Mazza 2011). The intermediation facet has been treated in isolation even in the current training interventions.

- 1.9 **SENCE's key challenge is to expand coverage and boost the effectiveness of its interventions.** It faces three main obstacles: (i) weak implementation of training and labor intermediation policy design and evaluation (MTPS) and regulation (SENCE) functions; (ii) poor quality and relevance of the vocational training actions implemented (tax exemption and social programs); and (iii) weaknesses in administrative management, compounding the preceding shortcomings. The first two problems are linked to central aspects of a public agency like SENCE (steering and execution) and the third, to its support areas.

- 1.10 **Weak implementation of policy design, evaluation, and regulation functions.** The legal framework governing policy design and evaluation and training market regulation functions is inadequate (Grafe 2012). Moreover, no institutionalized processes have been developed (neither in SENCE nor MTPS) for training and intermediation policies and strategies, and there is an absence of mechanisms and methodologies to ensure public resources are focused on certain beneficiary groups and intervention types or to ensure monitoring and evaluation of impacts and outcomes. These are all crucial features in order to perform the steering and decision-making role effectively. The focus of SENCE's processes leaves little room for it to develop the skills needed to exercise its steering and supervision roles efficiently. As a result, the signals SENCE generates in the training market to guide resource allocation and overcome the associated shortcomings are weak or nonexistent.¹⁵ Lastly, the evidence on the effectiveness of SENCE's interventions is almost nonexistent, and there is scant evidence regarding the impact of the training system. There has been just one evaluation, of a non-experimental nature, showing that the tax exemption does not exhibit positive impacts (or that its impacts are

¹⁵ In all, 47.2% of the total budget had been executed by October 2011 and 95% of SENCE's training budget had been executed by the end of 2011. SENCE has a staff of 615, of whom 60.7% are assigned to regional offices (57.8% of its professional and technical staff). Just 9.4% of its staff are permanent. Staff assigned to central services, providing support to the policy and program design and formulation functions (Individual Training Department, Employment and Business Training Department, Internal Services Department), procurement management and IT systems management, account for 25.6% of the total (28.6% of professional technical staff).

slight) for its beneficiaries. There is no evidence regarding the effectiveness of other programs aimed at low-skilled workers.¹⁶

- 1.11 Although SENCE has begun to add intermediation to its training tasks, in the form of coordination and technical assistance to the Municipal Labor Intermediation Offices and the Bolsa Nacional de Empleo [National Job Search Service] (BNE), there is no clear strategy for its role in the design, evaluation and regulation to be assigned to SENCE to develop the operational and technical skills necessary, or in the management model to allow their application.
- 1.12 **Poor quality and relevance of vocational training actions.** Weaknesses are apparent in SENCE's operational management capacity (service delivery, control, and supervision) which have a substantial impact on training programs and actions. SENCE concentrates on managing the operational processes necessary for the contracting and payment of training activities run by technical training organizations, and weaknesses are apparent in terms of quality of information and timeliness of processes. Significant inclusion errors have been observed in the main social program targeting mechanism (social protection record).¹⁷ Quality standards have not been established for content, and there is no accreditation of courses and institutions, or institutionalized mechanisms to ensure the relevance of the training activities delivered. Moreover, SENCE does not use standardized methods and procedures in key phases of its regular operations, such as: records describing programs, with adequate information for evaluation and monitoring; diagnostic tools to identify persons and assign appropriate training or intermediation interventions (non-cognitive training, basic cognitive or technical training, information, guidance); a toolkit to measure each program's achievements and outcomes; identification and systematization of productive sectors' priorities, and institutional involvement of these sectors in developing the network and mode of training; and certification of government-funded training.
- 1.13 **Weaknesses in SENCE's administrative management.** Administrative processes are inadequate, and their management is fragmented, leading to the problems described above. No processes linked to business intelligence are in place to provide information about the overall situation, processing information, or producing timely and relevant analysis. There is also a lack of administrative management control mechanisms that include checks on relevance and risk detection. Instead, there is a series of fragmented components.

¹⁶ See Rodríguez and Urzúa (2012) for details of the assessment and the Informe de la Comisión Larrañaga (2011) [Larrañaga commission report] for evidence on other programs. The extensive body of evidence on effectiveness from other developed and emerging countries offers the benefit of lessons learned and valuable case studies for Chile (see Cuddy et al. (2010), Cuddy and Ammerman (2012), Urzúa and Puentes (2010), Rucci (2011)).

¹⁷ See Rodríguez (2012), for details of Chile's vocational training system and a characterization of vulnerable groups, the main programs, and evidence of significant inclusion errors; and Grafe (2012) "SENCE: Diagnóstico institucional, organizativo y de gestión" [Institutional, organizational, and management diagnostic assessment]. Both studies were conducted as part of preparations for this operation.

- 1.14 **The Government of Chile's responses in the labor market.** The government's strategy and management is structured along seven axes, two of which are employment and poverty.¹⁸ The former focuses on creating more and better quality jobs. The strategic objectives for 2010-2014 include: training workers and improving working conditions through access to work and promoting quality jobs. The aims in terms of access are: matching supply and demand, providing training through SENCE, and giving workers the tools they need to enhance their productivity and employability. The aims for quality are: improving working conditions and job security. The poverty axis focuses on eradicating extreme poverty and poverty reduction in general, with special emphasis on public policy evaluation. Accordingly, in 2011 the MTPS decided to: (i) redirect funds and efforts towards interventions focusing on vulnerable workers (and away from instruments through companies); (ii) give priority to interventions showing evidence of positive impact, and to improve, consolidate, and expand them—in particular those aimed at training for a trade or offering workplace training; (iii) prioritize training for labor-intensive productive sectors and those with unmet demand for labor (e.g. mining, construction, and metal working), and with on-the-job training; (iv) improve labor intermediation; and (v) monitoring and measuring results on the use of public funds. In 2012, there are plans to send a draft bill to the National Congress to set up an Employment Policy Advisory Panel. This panel will be technical in nature and its role will be to advise the MTPS on employment policies and subjects relating to the national training and employment system. It will deliver technical opinions on the functioning of training policies and programs, and the implementation and design of other employment policies executed by SENCE or under the MTPS or other related services.¹⁹
- 1.15 **Bank support in the sector.** In late 2009 the Ministry of Finance, the Ministry of Labor and Social Welfare (MTPS), and the Bank's Labor Markets Unit (LMK) launched an advisory services program to identify SENCE's obstacles to optimal functioning, document success stories from developed countries with relevant permanent training systems, and formulate policy options.²⁰ In April 2011, in a joint MTPS-Bank initiative, a workshop was run with parliamentarians and experts to analyze problems of equity and productivity in the labor market. The aim was to facilitate the discussion of the institutional, regulatory and labor policy reforms needed. Options for improving the functioning of the labor market were analyzed. Priority was given to those on which there was a shared diagnosis, the public resources invested were significant, and it was crucial to consolidate cost-effective alternatives (vocational training articulated with other labor and social policies). This was followed by areas in which there was no diagnosis, but

¹⁸ Government of Chile's compliance management. <http://www.gob.cl/cumplimiento/index.html>.

¹⁹ References: Short Law draft bill (2012), Advisory panel proposal (2012).

²⁰ Since 2009, the Labor Markets Unit (LMK) has also contributed to the MTPS with nonfinancial products on training for work and labor policy effectiveness: RG-T1136 in 2009, RG-T1160 in 2010, and RG-T1203 in 2011.

there was a strong interest in producing one and obtaining a deeper understanding to inform consensus-based options (labor regulation). This operation is aligned with the Bank's support and qualifies for the poverty and social equity targets of the general capital increase (document AB-2764). It fits in with the Bank's country strategy (document GN-2642)²¹ and is a strategic area for both Chile and the Bank: Labor Market: Productivity and Equity. The aim is to improve steering and regulatory capacity regarding active labor policies and enhance the quality and relevance of publicly funded training.

B. Loan rationale

- 1.16 The active labor policies aim for improvements in social equity, by enhancing the most vulnerable groups' job opportunities in the formal market, and by increasing productivity, in particular by: (i) improving workers' skills so as to boost labor productivity, and (ii) improving information on vacancies and job seekers, and the links between supply and demand in the labor market, to enhance the speed, hiring conditions, and matching of the supply of skills to demand.
- 1.17 Improving the labor force's skills and offering people information and guidance on the labor market can boost job performance and thus enhance people's welfare, even among the employed, particularly in the case of unskilled workers. Chile has registered a significant drop in total factor and employment productivity growth, which has an impact on the country's growth potential and the labor market's performance. It has markedly increased the quantity of human capital in recent years, however a segment of the labor force has been unable to access this expanded supply of jobs (Urzúa 2012, IDB 2011).²² At the same time, despite the varied range of courses on offer, coverage by the national vocational training system is limited, and the evidence suggests that its impact on labor performance is insignificant (Rodríguez and Urzúa 2012; Larrañaga Commission 2011). Market failures in the labor and training markets—often most affecting the lowest skilled—justify the use of public funds to help equip people with the skills the country needs in order to achieve sustainable and more equitable economic growth (IDB 2012).²³ SENCE faces the challenge of improving the performance of disadvantaged segments of the labor force.²⁴
- 1.18 **An innovative program.** The Bank has been supporting a variety of job training, intermediation, and placement programs run by different public entities in the region. However, in view of SENCE's institutional particularities, and the program's objective, this is the first time that a Bank program contributing to active

²¹ http://sec.iadb.org/Site/Documents/DOC_Detail.aspx?pSecRegN=GN-2642.

²² The PISA program in Chile yields scores of 449 in reading (499 for the OECD as a whole) and 421 in mathematics (498 for the OECD as a whole) in 2009, and 442 in reading (495 for the OECD as a whole) and 411 in mathematics (497 for the OECD as a whole) in 2006.

²³ Typical cases include various information failures, partial contracts that limit the appropriability of returns on training, and restrictions on liquidity and funding.

²⁴ Rucci 2011; Rodríguez and Urzúa 2012, Urzúa 2012, Grafe 2012, Rodríguez 2012.

employment policies will operate simultaneously on the strategic and execution levels. In other words, it will finance products and activities aimed at improving the MTPS's and SENCE's steering role in the training market—including market regulation and execution of SENCE programs (through service delivery).

- 1.19 A priori, investment in training and intermediation yields a return (Puentes and Urzúa 2010, Flores Lima 2010). However, there are a number of factors influencing whether these policies are cost-effective and scalable, and little is known about their costs (Card, Kluve and Weber 2009, Puentes and Urzúa 2010). Due to the myriad aspects involved—highlighted in the experience with and assessments of programs of this type—in the absence of evidence on the cost-effectiveness of certain schemes, and the MTPS and SENCE agency model—where steering and service delivery roles need to be coordinated—the dimensions to be reviewed in order for SENCE to improve the coverage and effectiveness of its actions have led to the operation's being focused on SENCE's systemic and strategic public policy facets. In this approach the strategic and decision-making level is articulated with the interventions based on a coordinated, dynamic system that is monitored, evaluated and consolidated with mechanisms and processes defined on all levels, resting on solid administrative management that allows it to adapt to needs to ensure relevance and impact. The program's proposed starting point is therefore to analyze, substantiate, test, and evaluate the changes so as to enable its design and operation to be gradually adjusted and consolidated in a sustainable way.²⁵

C. Objectives, components, and cost

- 1.20 **Objectives and expected outcomes.** This operation will help improve the functioning of Chile's labor market. The objective is to support the MTPS's efforts to extend the coverage and boost the effectiveness of SENCE's training and intermediation activities. The expected outcome, in keeping with that objective, is measured in terms of: (i) an increase in the difference in average wages between persons who used SENCE's services and those who did not; (ii) the percentage of persons who used SENCE's services who earn higher wages or are in formal employment (compared to the average for a comparable group and/or a preceding period); and (iii) the percentage of persons trained who underwent a needs

²⁵ References: Puentes and Urzúa (2010): "La evidencia del impacto de la capacitación laboral en el desempeño en el mercado laboral" [Evidence of the impact of labor training on labor market performance]. IDB technical note 268 reviews 215 experiences of training program evaluation worldwide, of which 20.7% correspond to program evaluations in Latin America and the Caribbean highlighting lessons learned. Flores-Lima, Roberto (2010), "Innovaciones en la Evaluación de Impacto del Servicio de Intermediación Laboral en México, BID resalta resultados positivos para México." [Innovations in the evaluation of employment intermediation services impact in Mexico, IDB highlights positive results for Mexico], Card, David; Kluve, Jochen; and Weber, Andrea (2009). "Active Labor Market Policy Evaluations: A Meta-Analysis," IZA Discussion Papers 4002. Card et al (2009) conduct a meta-analysis of active employment policies, but conclude that few impact evaluations have sufficient cost information to perform a cost-effectiveness analysis.

diagnosis prior to receiving training.²⁶ In short, the operation aims to extend the coverage and boost the effectiveness of training and intermediation services in SENCE's sphere through actions addressing its three main pillars: (i) strengthening the MTPS's steering and SENCE's regulatory capacity as regards labor intermediation and vocational training; (ii) improving the quality and relevance of SENCE's training programs; and (iii) improving SENCE's administrative management. The objective will be achieved by means of three components:

- 1.21 **Component 1. Supporting improvements to MTPS's steering capacities and SENCE's regulatory capacity in vocational training and labor intermediation (US\$2,838,000).** This component will focus on institutional strengthening and bolstering the steering role, by developing strategic regulation, planning, policy design and evaluation capacities to support decision-making, conducting evaluations, and training human resources. It will finance: (i) regulatory reform proposals to give SENCE more powers as regards training market regulation and intermediation, together with the design and implementation of permanent regulatory mechanisms; (ii) design and installation of a planning and policy analysis and design unit in the MTPS; and (iii) policy design and conducting studies and pilot schemes linked to existing and new interventions, with a special emphasis on: analysis justifying the priority targeting of funds on particular vulnerable groups and intervention types; articulation of training with education and/or intermediation, and training certification; and (iv) design of impact processes and methodologies and installation of an organizational unit in charge of evaluation at the MTPS. The conducting of [REDACTED] ²⁷ (*) evaluations on two training interventions will also be financed: the Workplace Training Program (FPT) and the Vocational Training Program (PO), distinguishing the differential impact between beneficiaries with different degrees of vulnerability. In the case of FPT, redesign and the subsequent impact assessment will be financed. The expected impact of the interventions to be assessed is that they contribute to improving participants' employment performance. The target population is expected to achieve a 5% increase, on average, in the rate of formal employment, with wages 5% higher than those of a control group not receiving training.
- 1.22 **Component 2. Supporting improvements to the quality and relevance of SENCE's training programs (US\$4,900,000).** This component is focused on developing operational capabilities relating to the identification, contracting, and monitoring of training activities, including the development and implementation of methodological standards, processes and mechanisms for quality assurance and to ensure the relevance of the training implemented or financed by SENCE. It will

²⁶ The indicators are calculated as a weighted average of the tax exemption and FONCAP figures, where the weighting is the proportion of SENCE funds devoted to each.

²⁷ (*) At the request of the borrowing country, the information contained in paragraph 1.21 will not be disclosed. "The non-disclosure of this information is in accordance with the country-specific information exception in paragraph 4.1 i of the Bank's Access to Information Policy."

- finance: (i) proposals for changes to ministerial operations to grant SENCE more powers to regulate training and intermediation activities, and to adapt SENCE to the new framework; (ii) reengineering of supervision processes towards a new risk management model, and strengthening of the supervision unit in line with these changes; (iii) design and installation of program formulation processes based on ministerial policy directives; (iv) redesign and implementation of instruments for selecting beneficiaries, including a review of existing beneficiaries and identification of barriers to participation; (v) reengineering of processes and working methods to guarantee that productive sectors drive the identification of skills requirements, such that courses are linked to real job opportunities; together with development of methodologies to define priority sectors for public policy; (vi) design and implementation of a quality management model covering training provision and the full course cycle—including a fact sheet; (vii) measurement of resource quality and content, conducting evaluations of various program outcomes, and making adjustments based on these; and (viii) training of human resources.
- 1.23 Selecting beneficiaries and identifying labor force needs are key aspects for intervention allocation and effectiveness. In terms of the persons potentially eligible for SENCE services, it is essential that SENCE have institutionalized processes and methodologies for selecting, targeting, and subsequently assigning people to the most appropriate intervention, whether it be intermediation (information, guidance) and/or training (basic cognitive, non-cognitive or technical training), to enhance employment performance. Thus, the design of modes and interventions, and the monitoring of results are also crucial to budgetary allocation. The program aims to develop and install technical and human capacity to enable this. Therefore, jointly with Component 1, articulation with education interventions will be analyzed and piloted if educational gaps are identified, and/or articulation with labor intermediation interventions if information and guidance problems, rather than training problems, are detected.
- 1.24 **Productive sectors.** The program recognizes the importance of working with productive sectors. First of all, it is crucial to identify, as one of SENCE's regular tasks, sectors undergoing—or projected to undergo—growth, so as to set priorities and ensure that there is demand for the training in the areas and trades on which subsidies are targeted. Also, the productive sector's participation is also essential to the training's content and mode being relevant and best suited to achieving enhanced performance from trainees. The productive sectors will define the training profiles and validate the content. Modes of prioritizing them in the workplace where appropriate (work experience, traineeships, apprenticeships, etc.) will be evaluated. An analysis will be performed to identify productive sectors in which to finance training. The program aims to strengthen the links between SENCE and training providers and sector associations and businesses, developing processes and methodologies to systematize and ensure these relationships, including tools and analysis to determine in which sectors to start institutionalizing private involvement. The program envisages evaluating vocational training certification options to ensure beneficiaries appropriate this training and to finance the

evaluation of the results of a reorientation of public resources towards interventions targeting vulnerable groups.

- 1.25 **Component 3. Supporting administrative improvements at SENCE (US\$1,020,000).** This component focuses on developing a model of management, control processes and administrative supervision, standardizing the operational databases, and strengthening the corresponding unit, so as to provide administration support to the two preceding components. It will finance: (i) design and implementation of program administrative control and supervision processes—budgetary and administrative management control—based on a risk-management approach; (ii) installation of a comprehensive management system (balanced scorecard) and setting up of regional offices; (iii) redesign and implementation of procurement processes to incorporate quality, relevance, and results of scoring of bids; (iv) integration and standardization of databases with quality filters; and (v) training of human resources.
- 1.26 **Cost and financing.** The cost of the program is US\$11,450,745, which will be financed by the Bank with Ordinary Capital resources (US\$7,500,000) and by the Republic of Chile (US\$3,950,745). Funds from the local contribution will mainly pay for software and contracting the program executing unit (PEU).

Table I.2 – Budget (US\$)

Component	IDB (Ordinary Capital)	Republic of Chile(*)	Total
Component 1. Supporting improvements to the MTPS's steering capacities and SENCE's regulatory capacity in vocational training and labor intermediation	2,138,000	700,000	2,838,000
Component 2. Supporting improvements to the quality and relevance of SENCE's training programs	3,820,000	1,080,000	4,900,000
Component 3. Supporting administrative improvements at SENCE	1,017,000	3,000	1,020,000
Program administration, management and supervision		1,692,600	1,692,600
Auditing	0	120,000	120,000
Monitoring and evaluation	150,000	0	150,000
Contingencies	375,000	0	375,000
Inspection and supervision	0	0	0
Financial expenses (interest and finance charges)	0	355,145	355,145
Total	7,500,000	3,950,745	11,450,745
(*) Notification was received from the Government of Chile that the local contribution will come from SENCE's existing budgetary resources.			

II. STRUCTURE OF FINANCING AND MAIN RISKS

A. Financial instruments

- 2.1 The Bank will support the operation with an investment loan financed from its Ordinary Capital resources (US\$7.5 million). The planned disbursement period is four years. The annual local contributions will come from SENCE's budget.

Table II.1. Disbursement schedule (in US\$)

Year				Total
1	2	3	4	
385,000	3,621,833	2,402,667	1,090,500	7,500,000

Note (*): The first year has been estimated based on the annual work plan for the first 12 months.

B. Environmental and social risks

2.2 **Environmental and social risks.** The nature of this program is such that it does not involve activities producing negative environmental and/or social impacts. This was classified as a category “C” operation. The nature of the program is such that it contributes to objective (ii) Poverty Reduction and Promotion of Social Equity Strategy (see OP-1002, paragraph 4.2.19, document CP-2475), to support comprehensive poverty reduction strategies and promote economic opportunities for low-income persons.

2.3 One potential risk is that participants might drop out of the training interventions. This could be caused by a number of factors, in particular: (i) inadequate course quality or relevance—for companies and/or participants’ initial skills. To mitigate this risk the operation envisages developing instruments such as the diagnostics of individuals’ skills, designing the curriculum with the active participation of the productive sector, implementing quality management and control instruments, etc.; and (ii) that young people may drop out when they find work, for instance. Monitoring all participants will make it possible to identify why individuals drop out and so build mitigation measures into future phases of the program.

C. Fiduciary risks

2.4 **Fiduciary considerations.** Noncompliance with the procurement plan and annual work plan (AWP) are the potential sources of fiduciary risk. The details of the program’s fiduciary risks are outlined in Annex III.

2.5 **Implementation capacity and sustainability.** Analysis of SENCE’s institutional and management capacity as an executing agency found that: (i) staff are highly knowledgeable and experienced in the use of country systems—the mechanisms that will be used to execute procurement and expenditures; and (ii) adequate standards, procedures and controls exist. The envisaged PEU should not present implementation problems in these respects.

D. Other risks

2.6 **Macroeconomic context.** One risk for active labor market policies is that the outcomes depend on the macroeconomic context. Growth for 2012 is estimated at 4.4% and the projections are favorable (4%-5% for 2013-2015). In the short term, the main risks would be associated with how the world economy progresses. However, the country’s fiscal and monetary policy gives it leeway to dampen the negative impact on the economy of any external shocks.

- 2.7 Successful development and implementation of the program requires the presence of critical factors, including: (i) significant political and institutional backing; (ii) significant participation and effective communication, monitoring, and coordination between different bodies and agencies (SENCE, MTPS, public entities, private sector) on the various tasks; (iii) fluid dialogue with the private sector; and (iv) efficient implementation of the planned procurement. Consequently, the main risks identified relate to the low level of commitment and/or participation of some of the relevant bodies; SENCE-MTPS agency problems, resistance to change (public and private sector); and procurement-related execution problems; lack of qualified full-time staff familiar with the procurement policy applicable to consulting services. These risks can be mitigated by taking the following actions: (i) redefining strategic priorities at the highest levels in SENCE and MTPS; (ii) drawing up a change management strategy to bolster the use of new instruments; and (iii) strengthening the unit responsible for execution, by setting up a PEU with the specified staff and structure. The project team will place emphasis on supervision, for optimal progress.
- 2.8 The political cycle is another potential source of risk, as it could hinder the specific implementation of some of the processes necessary to implement [REDACTED]^{28 (*)} assessments. To mitigate this risk the team will remain in permanent contact with the MTPS, so as to anticipate measures and take the necessary precautions to ensure that the technical quality of the impact assessments is achieved. The Bank has been supporting the MTPS through the design and testing of instruments, and in communication with key actors in order to run the impact assessments in 2013.

III. EXECUTION AND MANAGEMENT PLAN

A. Summary of execution arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Chile, and the executing agency will be SENCE, under the MTPS. The program's execution and disbursement periods will be four years. The multiyear project execution plan (PEP) was prepared at the outset to cover the execution period.
- 3.2 The design of the execution mechanism aims to: (i) meet the need for there to be a group of professionals devoted full-time to the program, who are able to ensure the quality of the planned outputs, internal coordination with the ministry and external coordination, promoting collaboration and ensuring the active participation in the project of each of their competencies; (ii) ensure good technical management of procurement—and ultimately good program implementation, including adequate coordination with other relevant entities, in particular the ChileCompra public procurement bureau, in view of the significant volume of procurement; and

²⁸ (*) At the request of the borrowing country, the information contained in paragraph 2.8 will not be disclosed. "The non-disclosure of this information is in accordance with the country-specific information exception in paragraph 4.1 i of the Bank's Access to Information Policy."

(iii) ensure timely strategic and administrative decision-making relating to program progress. The PEU will be in charge of steering operations under the auspices of SENCE (part of the MTPS) and strategic guidance will be provided by the MTPS. The program will have a general coordinator, who will report directly to the Director of SENCE. The PEU will include a technical coordinator for the components, together with team members responsible for technical management of each component, monitoring and evaluation, procurement, and finance and accounts. The PEU will steer and supervise the program and the achievement of its objectives. It will therefore: (i) make decisions concerning program progress; (ii) prepare annual updates to the PEP and program budget; (iii) draw up progress reports; and (iv) oversee program accounts and preparation of financial statements. The main functions of the general coordinator are: (i) coordinating and supervising activity execution; (ii) representing the program and dealing with the Bank to ensure proper execution; (iii) submitting progress reports to the Bank; (iv) handling disbursement requests, submitting supporting evidence of expenditures to the Bank, along with any financial reports it may require; (v) proposing any modifications considered necessary to the PEP and the program budget; and (vi) updating the procurement plan and submitting it to the Bank according to the changes made to the PEP and budget. The PEU, through its general coordinator and technical coordinator, will liaise with technical departments at the MTPS and/or other institutions as necessary to consider their expert opinions on implementation of the planned activities. The technical coordinator will be the counterpart for the three components: (i) guiding and ensuring fulfillment of the objectives and execution periods; (ii) collaborating on the interrelation of activities of Components 1 and 2; and (iii) ensuring articulation of the work of the contractors hired. Each component manager will have a line counterpart: in MTPS for Component 1 and SENCE for Components 2 and 3. **The setting up of the program executing unit (PEU) in SENCE, in accordance with the organizational profile and staffing agreed in advance with the Bank, will be a condition precedent to the first disbursement.**

B. Procurement

- 3.3 **Fiduciary agreements and requirements.** The main fiduciaries measures have been agreed to, as outlined in Annex III. These include: (i) the exchange rate to be used; (ii) audits; (iii) recording and reporting systems; (iv) modes of disbursement and expense reporting; (v) methods, types and threshold amounts for procurement processes and review methods; (vi) procurement plan for full execution; and (vii) financial supervision plan. The program will comply with the provisions of the policies for selecting and contracting consultants with Bank financing (document GN-2350-9), March 2011, national legislation and the ChileCompra system, use of which was approved by the Board of Executive Directors of the Bank on 14 December 2001, for certain modalities of Bank-financed operations, namely: (i) national competitive bidding for goods and nonconsulting services;²⁹

²⁹ The equivalent amount is currently US\$350,000.

(ii) shopping for works;³⁰ (iii) consulting services for which the Bank allows exclusive use of national firms;³¹ and (iv) individual consultants.³²

- 3.4 **Advance procurement and recognition of expenditures.** The Bank will provide **retroactive financing** (from the loan proceeds) for up to US\$500,000, and will recognize **eligible expenditures** (from the local contribution) for up to US\$130,000. Those expenditures are to have been made during the 18 months prior to the approval date of the loan, but after 19 January 2012 (the date on which the Project Profile was approved), and are to have been made in keeping with the Bank's procurement policies or substantially similar procedures. These expenditures include advance hiring of consultants for the design of regulatory mechanisms, instruments for the selection of beneficiaries of training services and reengineering of the involvement of the productive sector, and to configure and run the PEU. This contracting is detailed in the procurement plan and will be recognized retroactively, provided the applicable conditions of the procurement policies are met.

C. Auditing

- 3.5 The executing agency will submit the program's financial statements audited by Bank-eligible independent auditors within 120 days from each year end and 120 days from the final disbursement for program close-out. External audits will be governed by the Bank's applicable policies and procedures. If an independent audit firm is chosen, the costs will be met from the local contribution.

D. Summary of results monitoring mechanisms

- 3.6 An economic analysis was conducted on SENCE's main training instruments, and the outputs and outcomes detailed in the Results Matrix will be monitored. This will draw upon information from the MTPS's administrative and beneficiary databases, and others developed with the program. Six evaluations will be performed: four on results and/or processes, two on impact.

³³ (*).

³⁰ The equivalent amount is currently US\$350,000.

³¹ The equivalent amount is currently US\$500,000.

³² The Bank does not set thresholds in the case of individual consultants.

³³ (*) At the request of the borrowing country, the information contained in paragraph 3.6 will not be disclosed. "The non-disclosure of this information is in accordance with the country-specific information exception in paragraph 4.1 i of the Bank's Access to Information Policy."

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Lending Program		Poverty reduction and equity enhancement.		
Regional Development Goals		Share of formal employment in total employment.		
Bank Output Contribution (as defined in Results Framework of IDB-9)		Individuals (all, men, women, youth) benefited from programs to promote higher labor market productivity.		
2. Country Strategy Development Objectives		Aligned		
Country Strategy Results Matrix		GN-2642	Improving labor market functioning, promoting labor force's labor productivity, employability and equity.	
Country Program Results Matrix		GN-2661-4	The intervention is included in the 2012 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)				
II. Development Outcomes - Evaluability		Highly Evaluable	Weight	Maximum Score
		9.8		10
3. Evidence-based Assessment & Solution		9.2	25%	10
4. Ex ante Economic Analysis		10.0	25%	10
5. Monitoring and Evaluation		10.0	25%	10
6. Risks & Mitigation Monitoring Matrix		10.0	25%	10
Overall risks rate = magnitude of risks*likelihood		Medium		
Environmental & social risk classification		C		
III. IDB's Role - Additionality				
The project relies on the use of country systems (VPC/PDP criteria)		Yes	Financial Management: Budget, Treasury, Accounting and Reporting, and Internal Audit. Procurement: Information System, Shopping Method, Contracting Individual Consultant, and Advanced Used of National Public Bidding.	
The project uses another country system different from the ones above for implementing the program				
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:				
Gender Equality				
Labor		Yes	The main goal is support the MTPS to increase the efficiency and efficacy of SENCE activities. The goal is bringing support to the MTPS to increase coverage and efficiency of the actions of SENCE, particularly those in training and intermediation.	
Environment				
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		Yes	1) Workshop with parliamentarians and experts to analyze issues of equity and productivity in the labor market , 2) Alignment with the strategy and results-based country, 3) Two technical notes: the first made for the country strategy and aligned with the project, titled "Labor Market in Chile" and the second note entitled "Chile: Training in the training system based on job skills. Progress, challenges and policy recommendations " , 4) An IDB Working Paper entitled "The effect of temporary Accumulation Contracts on human capital in Chile.", 5) Two technical assistance documents: regarding the Active Worker Bonus program a descriptive analysis of their coverage and focus and a proposal for evaluation was prepared, and referring to the Special Program Youth / OTEC-Crafts questionnaires for applicants to the program and questionnaires for OTECs were prepared, including batteries of instruments relevant to the project, 6) Institutional diagnosis and management of SENSE, and 7) SENSE program diagnosis.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.		Yes	The ex-post evaluation will deal with many of the problems that earlier impact evaluations had: i) the comparasion group will be messured with the same instruments, ii) the questionaries will be refined to add more data (particularly, cognitive and non-cognitive abilities tests) to get a better comparasion group, iii) the comparasion groups will be taken from people that are in the same labor market, iv) the subjects will be followed for a longer period of time (18 months). instruments, ii) the questionaries will be refined to add more data to get a better comparasion group, iii) the comparasion group will be taken from people that are in the same labor market, iv) the subjects will be followed for a longer period of time (18 months).	

The project aims at supporting the Ministry of Labor and Social Protection to improve the coverage and effectiveness of training and labor intermediation at SENCE. The project contributes to the goals of (i) reducing poverty and improving equity, (ii) increasing the proportion of formal employment, and (iii) increasing the number of persons who benefit from programs designed to increase labor productivity. The project is aligned with the Chile's Country Strategy.

The diagnosis has adequate information about the slowdown in labor productivity and the relationship between this fact and the labor market. The justification for the program is adequate. The document also presents evidence on the effectiveness of similar interventions. The results are correctly defined and indicators are appropriate. The monitoring and evaluation plan includes elements of monitoring and impact evaluation to measure the results of the program. The proposed impact evaluations are rigorous and will contribute to provide solid evidence on the effectiveness of these type policies. There is an adequate economic analysis that discusses the validity of the assumptions. The benefits used in the analysis are part of the program results matrix.

The document identifies the key risks and mitigating actions.

RESULTS FRAMEWORK INDICATORS MATRIX

Project objective	<i>Extending the coverage and boosting the effectiveness of SENCE's training and labor intermediation activities</i>		
Outcome indicators	Baseline	Target	Comments
1. Difference between average wages of persons trained by SENCE and average wages of comparable group not receiving training, expressed as a percentage.	10%	12%	<p>Considering workers who received one or more training courses from SENCE social programs over the period 2007-2010 and the tax exemption 1998-2010 compared to ad hoc control groups (using data from the social protection and unemployment insurance records) according to the training program's targeting characteristics.</p> <p>For the calculation, the main social programs and tax exemption currently operating were considered. A change in the interventions will change the baseline. The main interventions will be collected annually. Simple average.</p>
2. % of persons who used a SENCE service and who received higher wages (relative to average of comparable group)	40%	42%	<p>Considering workers who received one or more training courses from SENCE social programs over the period 2007-2010 and the tax exemption 1998-2010 compared to control groups formed ad hoc (using data from the social protection and unemployment insurance records) the training program's targeting characteristics.</p> <p>For the calculation, the main social programs and current tax exemption were considered. A change in the interventions will change the baseline. The main interventions will be collected annually.</p> <p>Calculated as a weighted average of tax exemption and main social programs. Weighting: Proportion of SENCE amounts destined to each.</p>

3. % of persons who used a SENCE service and who have a job in the formal economy (relative to average of comparable group)	63%	66.2%	As per comment on indicator 2.
4. % of persons receiving training to whom the needs diagnosis mechanism was applied prior to the intervention	0%	22%	<p>As the intervention needs diagnosis mechanism is not currently being applied, the baseline is zero in 2012.</p> <p>Calculated as a weighted average of tax exemption and main social programs. Weighting: Proportion of SENCE amounts devoted to each one.</p> <p>Any change in the number of interventions will be taken into account annually.</p>

Output indicators Component 1	Base	Year 1	Year 2	Year 3	Target	
1. Training interventions with rigorous impact evaluations performed per year (number of interventions).	0	1	1	0	2	Evaluations using any of the following methods are considered rigorous: Random assignment, instrumental variables, regression discontinuity, or difference-in-difference.
2. Mechanism to detect fraud in actions applied to training courses in operation	0	0	1	1	1	

Output indicators Component 2	Base	Year 1	Year 2	Year 3	Target	
1. Interventions with revised targeting instruments (number of interventions).	0	2 (technical training organizations (OTECs), Vocational Training Program (PO), and Work-place Training Program (FPT))	1	1	4 or more	
2. Mechanism to ensure the relevance of the training offered is used to validate content of training activities financed with public funds (% of total courses using a mechanism).	0	10%	20%	50%	50%	The total number of courses existing will be gathered annually in order to calculate the denominator of the indicator, as the total number of courses varies considerably in each call. The calculation of the number of courses will be based on the number actually offered during the year.
3. Quality standards for performance management are used in training programs (% of total courses).	0	10%	20% s	50%	50%	As per previous point.

4. Training interventions with monitoring and/or outcome evaluations with defined standards (% of interventions).	0	25%	50%	100%	100%	<p>25% for year 1, calculated assuming 4 programs as denominator and 1 (PO) as numerator.</p> <p>50% assume the same denominator and two programs as numerator (PO and FPT).</p> <p>Subsequently, it will be 100% of the sum of main training interventions, which will be gathered annually.</p>
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Output indicators Component 3	Base	Year 1	Year 2	Year 3	Target	
1. Interventions with regular management indicators	0	1 (OTECs, PO) / total SENCE interventions	2 (OTECs, PO, and FPT) / Total SENCE interventions	100%	100%	The 100% target will be calculated based on the total interventions offered at the end of the program.
2. Integrated, standardized database with quality standards	0	30%	50%	100%	100%	

Notes:

1. The Indicators Matrix will show the base level values, expected year values, and target values of each indicator.
2. Outputs and outcomes are grouped together to facilitate monitoring of component performance.
3. The right hand column can be used for description of output / outcomes and choice of indicator and other explanatory notes.
4. In the Results annex/section, this Matrix will be complemented by a detailed account of the arrangements (including institutional responsibilities, Operating Regulations, terms of reference, hiring of consultants, budgeting) showing how the data will be collected, verified, analyzed, and reported to the Bank. The data sources and rationale behind the baseline and target values will also be described.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Chile

Project number: CH-L1064

Name: Program to Support SENCE's Effectiveness

Executing agency: Servicio Nacional de Capacitación y Empleo [National Training and Employment Service] (SENCE), Ministry of Labor and Social Welfare (MTPS)

Prepared by: Francisco J. Lois (Fiduciary Specialist in Financial Management, FMP/CCH); Raúl Lozano (Senior Procurement Specialist, FMP/CPR), Roberto Monteverde (Procurement Consultant) and Macarena Torres (Financial Consultant)

I. EXECUTIVE SUMMARY

- 1.1 As part of the design of the operation, an institutional and management capacity analysis of SENCE (as program executing agency) was conducted, applying a risk assessment adapted from the Guide to the Acceptance of the Use of National Fiduciary Systems (GUS) - <https://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36865963>, and program risk management, including tools to evaluate the public financial administration system (SAFP). This was applied in 2010 and 2011 and the SAFP, in conjunction with the results of the application of the procurement GUS (document GN-2538-6),¹ indicated a **low level of fiduciary risk**.
- 1.2 The assessment showed staff to have a high level of knowledge and experience in the use of SAFP and the public procurement system known as ChileCompra, which will be the mechanism through which project procurement and expenditure will be executed, and that there are adequate rules, procedures and controls. However, staff were not familiar with IDB rules and procedures.

II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 2.1 **Programming and budget.** SENCE uses the State financial management system (SIGFE) for budgetary management and control, which forms part of the national budget defined in the Organic Law on Financial Administration of the State (LAFE) prepared by the Finance Ministry through the Budget Office. Loans have to be included in the national budget in order to access the resources (financing and local contribution).

¹ The GUS report was agreed with the Government of Chile on 28 January 2011.

- 2.2 **Accounting and information systems.** SENCE has an adequate financial information system and internal control structure for the project. The system used for accounting purposes is SIGFE, which provides a transactional unit for Bank operations allowing a chart of accounts to be opened exclusively for the project, separated by source of financing. This system also generates financial reports that can be used as a basis for the preparation of reports to the Bank.
- 2.3 **Disbursements and cash flow.** The Treasury Office of the Republic maintains and controls the Single Fiscal Account at the Bank of Chile, from which it transfers funds to SENCE as requested by the latter in accordance with the cash flow schedule agreed with the Budget Office. In SENCE, following approval and order registration, payments are processed using the SIGFE Treasury module, which includes approval and authorization controls.
- 2.4 **Internal control and internal auditing.** SENCE's internal control system rests on its organizational plan, strategic plans, and operational and control procedures, approved by the Auditor General's Office, administrative standards of ethics and probity, Law 20.285 on transparency and access to public information, legislative, regulatory and administrative rules, mechanisms of verification and evaluation, and internal audits. The Internal Audit Department reports to the Director of SENCE and the Minister. It has suitable staff, procedures, work plans and programs.
- 2.5 **External control and reports.** SENCE is audited by the Office of the Comptroller General of the Republic (CGR), and review reports are posted on the institution's website.
- 2.6 **Procurement system.** The executing agency uses the ChileCompra system for procurement. Advanced use of this system for Bank-financed operations was approved by the Board of Executive Directors of the Bank on 14 December 2011.

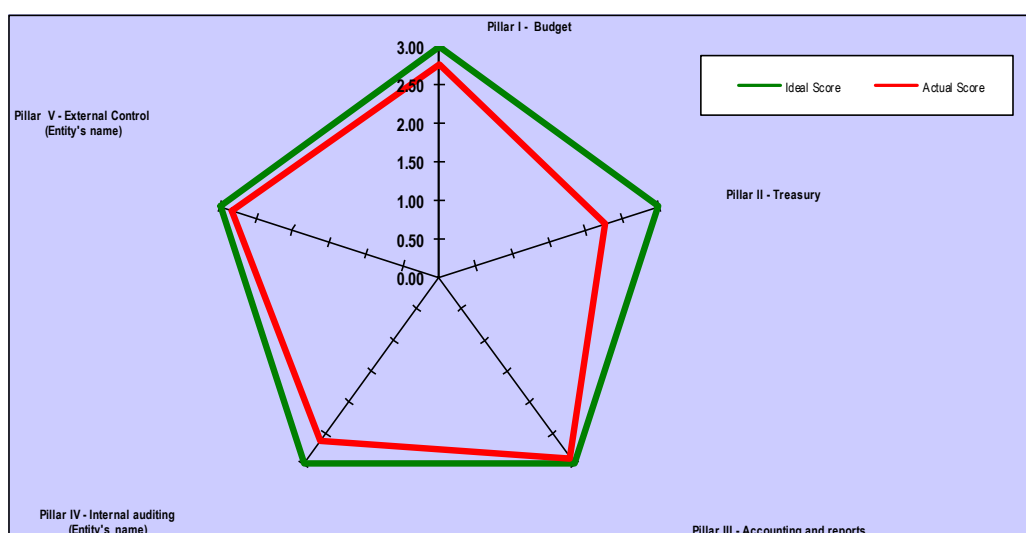
III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

Determining the level of financial fiduciary risk: Results Matrix

Results Matrix

Executing agency: SENCE

Pillars	Score		Development level	Risk level
	Ideal	Obtained		
Pillar I - Budget	3.00	2.78	High	Low
Pillar II - Treasury	3.00	2.28	Medium	Medium
Pillar III - Accounting and reports	3.00	2.90	High	Low
Pillar IV - Internal auditing	3.00	2.63	High	Low
Pillar V - External control	3.00	2.83	High	Low
Level of development of Public Finance Management System	3.00	2.68	High	Low



- 3.1 **Procurement and financial fiduciary risk.** The main risk identified is the executing agency's lack of familiarity with the Bank's Procurement (document GN-2350-9) and Financial Policies (document OP-273-2, document OP-274-2, Disbursement Guide and Financial Reports and External Auditing), given its lack of experience with Bank operations.
- 3.2 **Mitigation actions.** The executing unit will be set up in SENCE as a condition precedent. This unit is to have a procurement specialist familiar with the Bank's procurement rules who has experience in public procurement, to ensure that procurement is carried out in a timely and coordinated way, given the program's execution timetable. The executing unit will be trained on the aforementioned policy

and the preparation of the documents necessary to carry out procurement under the procurement plan. The training will take place once the Proposal for Operation Development (POD) has been approved. There will also be a finance and accounts manager, with experience using SIGFE and preparing financial reports. He or she will be in charge of ensuring the timely and correct accounting for program transactions, preparing disbursement requests, supporting documentation for expenses, and preparing program financial statements. A start-up workshop and ongoing training are envisaged.

IV. PROCUREMENT CONSIDERATIONS FOR THE SPECIAL CONTRACTUAL CONDITIONS

- 4.1 As agreed with the executing agency, for the purposes of the project team's contract negotiations, the agreements and requirements to be considered in the special conditions are set out below:

Applicable procurement policies. The Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9), of March 2011, will apply.

Procurement of goods, works, nonconsulting services, and consulting services. The methods and thresholds applicable in each case are listed below:

- (i) No contracting of works is envisaged.
- (ii) No contracting of goods and nonconsulting services is envisaged, following the applicable Bank policy.
- (iii) To select and contract consulting services with firms for amounts less than US\$500,000, the shortlist may comprise solely local companies. If the executing agency sees fit, with the prior agreement of the Bank, firms may be selected and contracted according to Section V, paragraphs 5.1 to 5.4 of the procurement policies set forth in document GN-2350-9.

Use of the ChileCompra system. As approved by the Bank's Board of Executive Directors, the executing agency may use the ChileCompra system in the following cases, provided the estimated cost of the procurement is less than US\$350,000: (i) for the procurement of goods and nonconsulting services; and (ii) under that threshold in the case of procurement of goods and nonconsulting services using "Framework Agreements" through catalogues on the ChileCompra platform. The executing agency may use ChileCompra to contract consulting services for values of less than US\$500,000. In these cases, when the quality- and cost-based selection method has been used, technical merit may not be given a weight of less than 70%. Individual consultants may be contracted regardless of the amount.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 Procurement and contracting financed wholly or partly from Bank resources will comply with the policies set forth in document GN-2350-9, the national legislation

alluded to above, and the terms of the Procurement Plan. The agreements and requirements applicable to all the procurements envisaged are set out below.

A. Procurement execution

- 5.2 **Goods procurement.** Contracts for goods under the project and subject to national competitive bidding (NCB) will comply with national legislation and the ChileCompra system. The project sector specialist (Project Team Leader—PTL) will be responsible for reviewing the technical specifications.
- 5.3 **Selection and contracting of consulting firms.** The consulting services involved in the project will be contracted using the standard request for proposals (SRP) issued by or agreed with the Bank. The review of the terms of reference for contracting consulting services is the responsibility of the project's sector specialist (PTL). In the case of contracts with an estimated cost of less than US\$500,000, the shortlist may comprising entirely local firms. When contracting consulting services for amounts less than US\$500,000, the executing agency will use national legislation and the ChileCompra system. In these cases, when the quality- and cost-based selection method has been used, technical merit may not be given a weight of less than 70%.
- 5.4 **Selection of individual consultants.** Contracts with individual consultants under the project will comply with national legislation and the ChileCompra system. The PTL will be responsible for reviewing the terms of reference for the contracting of these services. If the executing agency sees fit, with the prior agreement of the Bank, certain individual consultants may be selected and contracted according to Section V, paragraphs 5.1 to 5.4 of the procurement policies set forth in document GN-2350-9.
- 5.5 **Advance procurement and retroactive financing.** In order to start program execution, the executing agency envisages advance contracting of consultants primarily for the design of regulatory mechanisms, tools for the selection of beneficiaries of the training services, and reengineering of the productive sector's involvement.² For the recognition of these expenditures against the financing, the Bank will examine the procurement processes followed by the executing agency in order to ensure that they fulfill the agreed rules and procedures. Retroactive financing of up to US\$500,000, as set out in the Procurement Plan, may be recognized.

² National legislation and the ChileCompra system will be used for these processes.

B. Main procurement items

Activity	Type of bidding procedure	Estimated date	Estimated amount (US\$ thousands)
Goods			
Purchase of balance scorecard software	ChC/CB ³	Dec-13	200
Consulting firms			
Impact evaluation of technical training organizations and the vocational training program, design adaptations and technical training organization incentive and regulation mechanisms	QCBS	Dec-12	500
Redesigned Workplace Training Program impact evaluation	QCBS	Mar-13	500
Supervising process reengineering migrating towards risk-based management (including strengthening of the audit unit)	QCBS	Aug-12	500
Measurement of quality of reporting and content of courses delivered	QBS	Sep-12	500
Evaluation of program outcomes (learning, skills, job market access, performance, guidance) and program adjustments/redesigns	QBS	Sep-12	1,800
Individual consultants			
Technical professionals for program formulation, identification of strategic areas and productive sector content design, inter alia (28 months)	ChC/CB	Sep-12	220

The procurement plan for the project as a whole is available as Annex IV to the Proposal for Operations Development (POD) [IDBDOCS-#36880817-Plan de Adquisiciones - CH-L1064](#).

C. Procurement supervision

5.8 Procurement will be supervised ex post, as set out below:

Threshold for ex post review (amounts in US\$ thousands)			
Works	Goods	Consulting services	Individual consultants
N/A	<350	<500	No threshold

5.9 These thresholds have been established according to the executing agency's fiduciary capacity and may be modified by the Bank if this capacity changes.

5.10 Ex post review in the category of goods, consulting firm services and individual consultants will be implemented after at least one procurement process of each type has been reviewed ex ante. All direct selection and contracting processes will be subject to ex ante review. The program envisages that ex post review of procurement

³ ChC/CB, ChileCompra procedure through competitive bidding.

will look at process, not the relevance of the expense, which will always be reviewed ex ante.

- 5.11 Ex post review visits will take place every 12 months in accordance with the program's supervision plan. Ex post review reports will not include physical inspection visits due to the executing agency's low level of risk. They will be replaced by a verification of proof of receipt of the goods by the beneficiaries during ex post reviews. The ex post procurement review will be carried out by independent auditors. The executing agency's internal auditors will follow up any observations by the external auditors, and review procurement and other items in the schedule.

D. Records and files

- 5.12 SENCE will hold the procurement process documentation. For the purposes of ex post review, it is essential that records and files be kept in an organized way, with all procurement process documentation up-to-date and sorted.

VI. FINANCIAL MANAGEMENT CONSIDERATIONS FOR THE SPECIAL CONTRACTUAL CONDITIONS

- 6.1 The project's taxes may be paid for with loan proceeds.
- 6.2 The exchange rate at which the disbursed resources are converted into the country's currency will be used for the justification of advances and for the reimbursement of expenses from the financing or the local contribution, the first working day of the month on which the disbursement request is submitted.

VII. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 7.1 **Programming and budget.** The loan will be included in the national budget, and the annual resource allocation will be demonstrated (financing and local contribution).
- 7.2 **Accounting and information systems.** The executing agency will use the SIGFE transactional unit for book-keeping relating to the loan; it will have a financial and accounting specialist who will prepare financial reports and disbursement requests. The executing agency will open a chart of accounts approved by the Bank, and will submit in the semiannual progress report within 60 days following the end of each six-month period: an unaudited financial report and a report on the follow-up of the external auditors' observations.
- 7.3 **Disbursements and cash flow.** The executing agency will open a bank account for the loan resources, into which the local contribution may also be paid. This will be reported separately in the accounts and by cost center. The bank account will be reconciled monthly and a reconciliation report sent with each disbursement request.
- 7.4 **Internal control and internal auditing.** The internal auditors will monitor the observations of the external auditors and validate the replies and financial statements prepared for the audit.

- 7.5 **External control and reports.** The program's financial statements, audited by Bank-eligible independent auditors (a firm or the CGR), carried out in accordance with the Bank's reference terms, will be submitted to the Bank within 120 days after each year end and after the date of the last disbursement. The external auditors will conduct the ex post review of disbursements.
- 7.6 **Financial supervision plan.** Annual and final audited financial statements will be required. The external auditors will conduct the ex post review of disbursements. The Internal Audit Department will follow up on any observations by the external auditors, and review disbursements and other items included on their schedule. The Bank will review the external auditors' reports and working papers when it sees fit, and will perform desk reviews of and visits to the executing agency, based on the risk matrix in the Country Office. It will also provide the executing agency and Internal Audit Department with financial training at project launch.
- 7.7 **Execution mechanism.** The establishment of the executing unit will be a condition precedent to the first disbursement, and the terms of reference of its members must receive the Bank's no objection.