

**Japan Special Fund (JSF) Project Profile**  
**January 14, 2009**

**I. Basic project data**

<b>Beneficiary Country / Region:</b>	Dominican Republic		
<b>Project name:</b>	Support to the program “Labor Markets and Social Transfers, Phase I”		
<b>Project number:</b>	DR-T1049		
<b>Project team:</b>	Veronica Alaimo (Team leader, SCL/LMK), Laura Ripani (SCL/LMK), Pablo Ibarraran (SPD/SDV), Marina Bassi (SCL/EDU), Armando Godinez (EDU/CDR), Jorge Torres (SPH/CDR) M. Cristina Landázuri (LEG/SGO), and Ethel Muhlstein (Project assistant, SCL/LMK)		
<b>Executing agency:</b>	Secretaría de Estado de Trabajo (Labor Bureau), Government of the Dominican Republic		
<b>Beneficiaries:</b>	Dominican Republic		
<b>Date of request:</b>	09/23/2008		
<b>Financing plan:</b>	IDB (JSF):	US\$	409,550
	Local Counterpart:	US\$	102,000
	Total:	US\$	511,550
<b>Tentative dates:</b>	QRR	February 2009	
	Approval	February 2009	
<b>Execution period:</b>	24 months		
<b>Disbursement period:</b>	27 months		

**II. Background and problem statement**

**A. Background**

- 2.1 Economic growth during the 1990s helped to reduce poverty and to improve the country's human development indicators significantly. In 2001 the poverty rate had fallen from 38% in 1986 to 29% in 1998, and extreme poverty had declined to 5% (World Bank, 2001). However, external and internal factors contributed to slower growth beginning in 2001 and economic recession in 2003. As a consequence, poverty increased and living conditions worsened in all income quintiles.
- 2.2 In 2004, the economy started to grow again. This economic growth has been accompanied by employment growth. However, the relationship between economic and employment growth is weak (Lizardo, 2008).<sup>1</sup> According to data from a Household Survey (ENFT)<sup>2</sup>, during 2000-2006, for every percent point of GDP growth, employment increased 0.14%

<sup>1</sup> Lizardo (2008), “Análisis del Desempeño Económico y Social de la República Dominicana, Enero-Junio 2007”, Santo Domingo, República Dominicana.

<sup>2</sup> In Spanish “Encuesta Nacional de Fuerza de Trabajo”, ENFT

on average. This elasticity is much smaller than the one reached during 1991-95 (0.80%) and 1996-99 (0.66%).

- 2.3 Since labor is the main asset of the poor, labor markets are essential for poverty reduction and equality. The recent crisis of 2003-2004 had a negative impact on labor markets, and it hurt particularly women and the young. During that period, the participation rate of these two vulnerable groups fell, especially among urban youth. Although the participation level is now back to the pre-crisis level, this temporary reduction may have long term impacts for those who could not enter the labor market, due to a loss of potential tenure and consequently of future wages.
- 2.4 The participation rate among young adults with little skills is particularly low. More specifically, the participation rate of people with incomplete secondary education is much lower than the one observed for people that completed that education level. In addition, the wage gap has been increasing since 2004, favoring the high skilled workers.
- 2.5 One of the main characteristics of unemployment in DR is its high concentration among the young. People between 20 and 29 years old have an unemployment rate of 16.6 percent compared to 8.5 percent for workers aged 30-39 and 6.4 percent for people aged 40-49 years old. This rate has been growing for the past ten years (although is lower than the peak reached during the 2003-2004 crisis).
- 2.6 On the demand side, micro firms employ 54 percent of workers. These firms are mostly informal and pay lower wages. In fact there is a positive association between firm size, formality, workers qualification, and wages. These means that policies towards the creation and growth of micro and small firms and their transition towards formality could result in higher quality jobs, higher productivity and higher wages.

## **B. The program and its consistency with the Bank strategy**

- 2.7 The analysis of the Dominican's labor market shows the need of an integrated training policy that can help low skilled young adults to overcome their difficulties in finding jobs of good quality. Training policies are coordinated by the Labor's Bureau (in Spanish, Secretaría de Estado de Trabajo, SET). The Training Institute (Instituto Nacional de Formación Técnica y Profesional, INFOTEP), which depends from SET, provides training to workers, provides guidance to firms, and regulated the professional training at the national level. However, young people with low skills do not qualify to benefit from INFOTEP's training programs. In this context, the Youth Training program (Juventud y Empleo, JE) started in 2001 with financial assistance from the Bank (Loan BID1183/OC-DR).
- 2.8 The JE program was specifically designed to target young adults with low skills living in urban areas, particularly women. Its goal is to provide training to unemployed workers aged 16 to 30 years old with incomplete secondary education. During the first round of training courses, 55 percent of beneficiaries were women, for which 20 percent were single mothers. The average age of beneficiaries was 22, and only one third of beneficiaries completed primary school.
- 2.9 The training combines three months of formal training in a private learning facility and a two-month internship in a private formal firm. Both the training facilities (Institutos de Capacitación, ICAPs) and the firms must be registered in the INFOTEP. The SET organizes a bidding process to allocate the training courses to ICAPs. In addition, the ICAPs must be associated with a private firm where the internship will take place. Ideally, the

participation of the private sector enables a better correspondence between demand and supply of skills.

- 2.10 From a technical perspective, one of the main features of this program is its experimental nature. The ICAPs select 35 potential beneficiaries, among which 20 receive the training and the rest do not. This selection process is random. Because of that, it is possible to measure the impact of the program in terms of employability and wages, just by comparing the outcomes of treatment and controls. The evaluation of the courses financed through the loan BID1183/OC-DR indicates that the program did not succeed in increasing the employability of trainees, and although a wage gain was observed, the difference was not statistically significant and it is not known if the difference would last.
- 2.11 In 2006, the bank approved the program Labor Markets and Social Transfers (loan BID1693/OC-DR) aimed at strengthening the National Labor Services in the country. One of the components of the program intends to reduce job search and hiring times, and to increase the employability of vulnerable groups. To fulfill this goal, the program financed the implementation of 300 new courses. The program is included in the Bank Country Strategy (BCS), where the improvement of labor intermediation and vocational training are set as priorities for poverty reduction.
- 2.12 The BCS focuses on poverty reduction through activities in three main pillars: competitiveness, governance, and social pillars. The improvement of labor intermediation and vocational training are part of the competitiveness and the social pillars. Improving competitiveness requires, among other things, a better qualified labor force, trained to work in higher value-added activities (CSR, page 22, par 3.10). In addition, the social pillar includes training and productive development activities for low-income sectors with an emphasis on bringing poor young people and women and the rural population into the workforce (CSR, page 25, par 3.18, 3.21).

**C. Other complementary initiatives**

- 2.13 The Bank initiative in Dominican Republic is not isolated from other projects the Bank financed in the Region or from other initiatives developed in the country. In 2006 the IDB finished a poverty assessment for the country in joint collaboration with the World Bank. At that time, the World Bank manifested its interest in the JE program, and started to work in a program that will finance 500 courses in 2008-2009 and 165 additional courses in the end of 2009. The proposed TC will finance a new evaluation of the 300 courses financed by the IDB (BID1693/OC-DR), evaluation that will be coordinated with the World Bank to increase the sample size of the beneficiaries to be evaluated.
- 2.14 In addition, the youth training program implemented in DR improved upon previous experiences in Chile (Chile Joven) and Peru (PROJOVEN). In the case of Peru, the evaluation of the program included a qualitative study of training facilities and firms. However, this qualitative evaluation took place a long time after the courses were given, thus generating recalling problems among participants. The proposed TC will improve upon the experience of PROJOVEN in terms of the qualitative evaluation of training facilities and firms.
- 2.15 The problem faced by young Dominicans is also observed in other countries in the region. In general, the problem to be tackled is the transition between school and the labor markets. The Education Division is currently undertaking six studies related to the school-to-work transition, with pilot surveys in Argentina and Chile. The proposed TC will build

up from the experience in those countries to investigate the main problems faced by young people during their school-to-work transition.

### **III. Program objective and description**

#### **A. Goals and purpose**

- 3.1 The purpose of this Technical Cooperation is to support the loan BID1693/OC-DR. The TC will serve to the human development of vulnerable workers, especially the young, through (a) the evaluation of the youth training program “Juventud y Empleo”, and (b) the provision of analytical tools to better assess the constraints in terms of school-to-work transition and the duration of unemployment. By doing so, the TC will improve the living conditions of vulnerable populations through the strengthening of the labor market system in Dominican Republic.

#### **B. Components**

- 3.2 The TC will have three main components:

##### **1. Evaluation of Youth Training program**

- 3.3 The loan BID1693/OC-DR includes funds for evaluation, but the allocated budget is not enough. At the moment of the loan’s design, the evaluation of the first intervention (Loan BID1183/OC-DR) was not finished. When the evaluation was completed, the evaluators found out that the sample size necessary to reach statistically significant differences was not big enough. In addition, to avoid attrition, it was recommended to include telephone follow-up surveys to keep track of both beneficiaries and controls. Both the larger sample size and the implementation of longitudinal surveys were not considered at the time of loan design, requiring additional funds to address both issues.
- 3.4 Taking these issues into consideration, the first component of this TC will improve the evaluation of 300 training courses that were financed by the loan BID1693/OC-DR. Currently, the training program has finished and the SET is implementing the contact survey to beneficiaries and controls (10,500 individuals). The next step is to prepare the longitudinal survey, which will consist of three rounds, starting in December 2008 (or January 2009) and continuing every six months. A follow-up survey will be conducted after 24 months of finishing the training. This will allow understanding long-run effects of the training, which was not possible to evaluate in the first round of courses (Loan BID1183/OC-DR).

##### **2. Analytical work**

- 3.5 The Bank is supporting the Government of the Dominican Republic in the creation and strengthening of a National Employment System (second component of the loan BID1693/OC-DR). The system benefits from analytical pieces that can increase the understating of the problems faced by vulnerable workers in the Dominican Republic, identifying bottle-necks and proposing solutions for them. This component will finance three analytical pieces. The specialist from the Labor Observatory will be actively involved in these studies. One study will analyze the relationship between firms and training

facilities in the context of the JE program. The second study will analyze the school-to-work transition in the Dominican Republic. The third study will analyze the duration of unemployment.

- 3.6 **First study.** In the context of the JE program, the government considered of interest investigating the links between the trainers, the potential employers (those who offer the internship) and the trainees. This can be done by a qualitative survey of training facilities and firms. The study will measure the role of the program in bringing together demand and supply of skills, and will use this information in the design of the second phase of the program. The results of this study not only could benefit the design and implementation of new courses within the JE program, but also could contribute to the development of the National Employment System.
- 3.7 **Second study.** The study of “school to work transitions” in the region is part of the stand alone agenda for 2008 and 2009, and it is considered a priority of VPS. This component will be done in collaboration with SCL/EDU. “... The school-to-work transition provides the central context in understanding youth unemployment. Youth unemployment is not a transitory state to employment, rather it is a very lengthy process where youth move from unemployment, schooling, unpaid unemployment, and low-wage unskilled employment—all of which have low opportunity costs. The youth transition process, including that of youth unemployment, largely reflects that of larger labor market trends —the large informality of the labor market, the growing skills-wage gap between workers in the formal-informal sector; and falling incomes of informal workers, moving precariously toward the income poverty line ...” [Fawcett, IADB, 2001].<sup>3</sup>
- 3.8 As previously stated, young people, especially with low skills living in urban areas, appear to be the most vulnerable group in terms of participation in the labor markets and unemployment rates. These school-to-work transition difficulties suggest that there is a gap between the skills demanded by firms to fill productive jobs and those provided by the education system. The objective of the school-to-work analytical work is to document this gap and to propose a set of policy recommendations aiming at bridging that gap. This analysis will benefit from an ongoing study carried out by the Education Division (SCL/EDU), which will produce an understanding of the problem at the regional level, and a retrospective survey on youth in Argentina and Chile.
- 3.9 **Third study.** The duration of unemployment is complementary to the school-to-work transition problem. The ENFT survey can be linked along time to construct a panel that follows workers over time. This study will prepare the panel data, which will be used to study the transitions between finishing school and obtaining the first job, and the time between jobs. It is important to understand the determinants of unemployment duration (job search) to develop public policies oriented to reduce unemployment spells in DR.

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<sup>3</sup> Fawcett, Caroline (2001). “Latin American Youth in Transition: A Policy Paper on Youth Unemployment in Latin America and the Caribbean,” IADB, Sustainable Development Department, Social Development Division, Labor Markets Policy Briefs Series.

### 3. Dissemination activities

- 3.10 This component will finance an international workshop to disseminate the main findings of the previous components among other countries where the Bank is financing training programs such as Honduras, Ecuador, Panama, Peru, and Mexico.

## IV. Cost and financing

- 4.1 The following table summarizes the cost estimates and sources of the financing.

Type of Expense	JSF/JCF	Local Counterpart (1)	TOTAL	Number of Months	Cost per Month
<b>Component #1</b>	<b>192,000</b>	<b>32,000</b>	<b>224,000</b>		
Impact evaluation	192,000	32,000	224,000	24	9,333
<b>Component #2</b>	<b>162,550</b>	<b>62,000</b>	<b>224,550</b>		
Qualitative survey to training facilities and firms	53,000	22,000	75,000	12	6,250
School-to-work transition	99,000	40,000	139,000	18	7,722
Duration of unemployment	10,550		10,550	6	1,758
<b>Component #3</b>	<b>35,000</b>	<b>8,000</b>	<b>43,000</b>	3	14,333
<b>Contingencies (5% JSF)</b>	20,000		20,000		
<b>TOTAL</b>	<b>409,550</b>	<b>102,000</b>	<b>511,550</b>		

(1) The local counterpart will be in-kind for the value of human resources, work space, and other related inputs.

## V. Executing agency and execution structure

- 5.1 Secretaría de Estado de Trabajo (SET) of the Dominican Republic will be the executing agency of the TC. SET has a coordination unit, which has been the executing agency of the Loans BID1693/OC-DR and BID1183/OC-DR. The SET will work closely and jointly with SCL/SPH for the execution of the proposed TC.

## VI. Major issues

- 6.1 There are no major risks associated with this TC.
- 6.2 The minor potential risks associated with the TC are those inherent of any evaluation. Its success will depend on the ability to successfully collect data from beneficiaries, controls, training facilities and firms.
- 6.3 During the first evaluation, many controls were lost because of outdated contact information. To avoid this problem, the loan BID1693/OC-DR included a follow-up survey for the 3,000 controls; this re-contact survey is currently being implemented. The longitudinal surveys will also seek to update contact information of trainees and their families.

- 6.4 SCL/LMK will perform monitoring and evaluation as part of the daily activities.

## **VII. Environmental and Social Strategy**

- 7.1 The project does not include any activity that may generate negative environmental and/or social impacts. This operation is classified as category “C”. It is expected that the social impact of the program will be positive. The Bank’s Country Strategy (CSR) focuses on poverty reduction through activities in three main pillars: competitiveness, governance, and social pillars. The improvement of labor intermediation and vocational training are part of the competitiveness and the social pillars. Improving competitiveness requires, among other things, a better qualified labor force, trained to work in higher value-added activities (CSR, page 22, par 3.10). In addition, the social pillar includes training and productive development activities for low-income sectors with an emphasis on bringing poor young people and women and the rural population into the workforce (CSR, page 25, par 3.18, 3.21).

## **VIII. Action Plan**

- 8.1 The team will prepare the Plan of Operations with the corresponding Terms of Reference.
- 8.2 At the same time, the team will be working jointly with the World Bank and the *Secretaría de Trabajo* on the longitudinal questionnaire and the qualitative questionnaire for training facilities and firms.
- 8.3 The following table shows the proposed timeline of activities.

Approved:

(original signed) Jan. 26, 2009  
Jacqueline Mazza, Chief a.i. SCL/LMK - date

