

# INCENTIVES FOR PRIVATE SECTOR INVESTMENT IN TRAINING

(TC-96-09-16)

## EXECUTIVE SUMMARY

**REQUESTER:** The Government of Honduras

**EXECUTING AGENCY:** Centro Asesor para el Desarrollo de Recursos Humanos de Honduras (CADERH) [Honduran Human Resources Development Advisory Center], a not-for-profit private agency established in 1984 chiefly to identify occupational training requirements, develop certification programs, and provide technical assistance and interinstitutional cooperation. Since its establishment, CADERH has played a regulatory role to compensate for an inefficient public sector and has become a national leader in training issues.

**BENEFICIARIES:** The project beneficiaries will be: (a) private enterprises in the construction, tourism, and wood processing sectors, whose competitiveness and productivity will be improved and whose employee recruitment costs will be reduced; (b) employees of those enterprises, whose training and skills will improve, along with the likelihood of their earning higher wages; (c) business groups that promote the exchange of ideas and quality management mechanisms; and (d) providers of training services, for which demand will increase to match current corporate requirements.

**FINANCING:**

Modality:	Grant
Local counterpart funding:	US\$1,050,000
MIF (Facility II):	US\$1,950,000
Total:	US\$3,000,000

**TIMETABLE:** The project will be executed over 36 months and the disbursement period will be 42 months, except for one payment of up to US\$100,000 to the consulting firm that will perform the ex post evaluation of the project. The disbursement period for that payment will be an additional 12 months. Annex III presents the timetable of activities.

**ENVIRONMENTAL CLASSIFICATION:** The Environment Committee, at its meeting of November 5, 1996, classified this as a Category II operation.

**OBJECTIVES:** The general objective of the project is to boost the competitiveness and productivity of private enterprises in three selected sectors through greater workforce efficiency.

The specific objectives are to: (a) encourage small and medium-sized businesses in the construction, tourism, and wood processing sectors to invest in training for their employees; (b) promote a better supply of training services in response to private sector demands; and (c) generate experiences that can serve as models for a future national occupational certification program.

**DESCRIPTION:** This project will provide financial support for small and medium-sized enterprises in the construction, tourism, and wood processing sectors to train their employees. Businesses will be required to pay 50% of the cost of the training as a counterpart contribution. To improve the quality and quantity of the supply of training services, the project will simultaneously provide technical assistance to introduce new methods such as skills-based training and other methods responsive to demand. Pilot projects will also be carried out to lay the groundwork for a national occupational standards and certification program. The project will therefore consist of three components: (a) incentives for training in private enterprises; (b) training of trainers and a roster of private training suppliers; and (c) promotion of a national occupational standards and certification program.

The project will be carried out over three years. CADERH will directly execute the second and third components and will administer the incentive under the first component. Therefore, for that component CADERH will refrain from carrying out training related to the incentive and will establish an executing unit devoted exclusively to the project.

**RISKS:** The main risk is that small and medium-sized businesses participating in the project will not recognize the advantages of training as a means of boosting their productivity, which means that the project would not have the expected catalytic effect. To forestall this risk, promotion and continuous dissemination of the results in real time have been planned to demonstrate the economic advantages of developing training plans and an occupational certification program.

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

**(i) Conditions precedent to the first disbursement**

CADERH will present to the Bank: (a) evidence that a project coordinator and an accountant have been hired following the IDB's procedure for contracting consulting firms and individual consultants; and (b) evidence that the executing unit has the logistical support required for its operations in terms of space, facilities, services, and office equipment.

**(ii) Other conditions**

(a) For component I: (i) in selecting small and medium businesses, CADERH will follow the procedures and eligibility criteria described in paragraphs 3.4 to 3.8; (ii) enterprises that present eligible proposals will be required to sign an agreement with CADERH, based on a model approved by the Bank, as indicated in paragraph 3.7; (b) for component III, prior to disbursement of funds for industrial groups, each group must sign an agreement with CADERH, based on a model approved by the Bank; (c) during the project, CADERH will comply with the requirements described in paragraph 5.7.

## I. COUNTRY ELIGIBILITY

- 1.1 The Donors Committee declared Honduras eligible for all types of Multilateral Investment Fund financing on December 14, 1994.

## II. BACKGROUND

### A. Economic history and labor market situation

- 2.1 The structural adjustment policies introduced by the Honduran government in the early 1990s were intended to reduce financial imbalances and establish a macroeconomic framework that would promote private investment, increase production of consumer goods, and create jobs. Some headway was made on these policies in the following years as major macroeconomic imbalances were corrected and GDP was raised. However, growth has been slower than expected. In 1995, GDP grew by 3.6%, the fiscal deficit was 2% of GDP, and inflation averaged 29.5% or 7.8 points higher than in 1994.
- 2.2 The development of key sectors must be promoted to help increase economic growth. The figures for the last 10 years show a declining relative contribution of agriculture, primary forest products and the fishing industry, despite some growth in manufacturing and construction. The sectors with the best growth prospects and strategic importance for their potential contribution to national income, export earnings, and employment levels are: (a) agroindustry, particularly the food and forest industries; (b) construction; (c) the garment industry; (d) tourism and related services; (e) financial and banking services; and (f) the manufacturing industry, particularly raw materials processing (e.g. wood), tradable goods, and industrial maintenance such as machine tools. 1/
- 2.3 Among these dynamic sectors, there are three - tourism, wood manufactures and construction - in which the main barrier to developing their potential is the limited training of workers and employees. There are many small and medium-sized enterprises (SMEs) in those industries that have no experience in investing in training. Nonetheless they realize that training is crucial for improving the capacity of their workforce and capitalizing on their potential. 2/

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- 1/ Informe Consultoría BID, Rafael Díez de Medina, 1996; Evaluación Fuerza Laboral de Honduras. Byron Battle et al., AID, 1994; and Encuesta Nacional Necesidades de Capacitación, CADERH/INFOP, 1988.
- 2/ Determinación de Demanda Económica y Social por Servicios de Capacitación y Cuantificación del Déficit de Demanda por estos Servicios, E. Corea Yáñez, 1994.

- 2.4 The tourism industry is taking off in Honduras. The country is favored by nature, has a Mayan cultural heritage, and there is potential for its tourism infrastructure to grow. However, employees in the industry do not provide services up to the international standard expected by foreign visitors. This situation is particularly apparent in hotels and restaurants, which provide the bulk of tourist services. Other services not up to international standards are information for visitors, guided tours, travel agencies, and transportation. Despite the strategic importance of tourism for the country's development, institutions to transmit international knowhow are absent.
- 2.5 In the wood industry, Honduras has excellent resources for the manufacture of furniture and other high-quality articles. The industry has substantial potential for creating exports, jobs, and economic growth based on sustainable use of forests. There is demand on the world market for good quality wood products that could be met by Honduran manufacturers. To tap that potential, the industry has to begin using modern production, design, and finishing techniques that are up to international standards. It is therefore necessary for workers employed in this sector to receive training in mass furniture production, wood treatment and preservation, precision work which includes the use, calibration and maintenance of machinery, and fine finishing.
- 2.6 The construction industry in Honduras is lagging behind in the use of new technologies, particularly in functional facilities and finishes. The main reason lies in the limited schooling of most workers in the industry, who have only two to four years of primary school and have learned their skills by working as apprentices. As a result, inefficiencies in the industry are transmitted from generation to generation. A survey conducted by USAID showed that most enterprises in this sector have no training programs for their employees.
- 2.7 Although many business owners realize that they must provide their employees with training in order to increase company production and competitiveness, there are few who wish to shoulder the cost, since they believe that training for employees will lead to higher expenditures without short-term returns or benefits. The consequence of this inertia is a less dynamic economy.
- 2.8 In Honduras the market is beginning to operate freely. Government protection has diminished rapidly and competition has increased, catching many businessmen accustomed to subsidies and high levels of protection by surprise. As the country's economy is deregulated, higher labor productivity is becoming a key element for restructuring the business sector. To achieve this goal, some elements in the current technical training system must be changed to encourage increased investment in human capital. The limited supply of training services and a training system that has not been

able to respond to the needs of the private sector have created disincentives for investments in training for employees.

B. The existing technical training system

- 2.9 In examining the country's technical training capacity, it must first be recalled that Honduras is one of the Latin American countries with the lowest levels of formal education among its economically active population (EAP). Some 27% of the EAP in Tegucigalpa, 23% in San Pedro Sula, and 19% in the other urban areas have not completed primary school. In rural areas, 25% of the workforce has received no education at all, and 38% has not completed primary school. Today there are two major initiatives to improve the coverage and quality of formal education in Honduras. The IDB is preparing an investment project to help students who have fallen behind and to upgrade junior high school education, and the World Bank is working on a basic education program. The project proposed in this document will help to boost the productivity of enterprises in selected sectors, making them more productive by improving the efficiency of their employees through technical training.
- 2.10 The Honduran training system is limited, poor in quality, haphazard, and composed of various private and public institutions that operate without quality controls. This situation is difficult to reverse in the short term, since the system lacks a policy framework and a regulatory agency to guide its development. The supply of services is dominated by the Instituto Nacional de Formación Profesional [National Vocational Training Institute] (INFOP), which by legislative mandate coordinates, collects, and distributes funds generated by a payroll tax earmarked for private sector training.
- 2.11 As a regulator, INFOP has been unable to respond adequately to market requirements, since it does not have the institutional capacity to play a guiding role. Therefore it has limited its activities to the provision of training courses whose quality is deemed to be poor. Its lack of efficiency and organization have led to poor distribution of basic infrastructure and human resources. Just 8% of students enrolled in INFOP complete their courses, leading to under-use of space and instructors. <sup>3/</sup> This situation has harmed its image and the credibility of its services.
- 2.12 INFOP collects a 1% tax on total payroll from private enterprises with five or more employees. Despite the employer contribution, which accounts for 70% of its budget, the institute does not have close ties with private enterprise. This means that in many cases training is provided in jobs for which there is no demand and there

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3/ Informe Consultoría BID, Rafael Díez de Medina, 1996.

is a shortage of courses in emerging occupations that directly reflect business requirements.

- 2.13 Since INFOP has not met private sector demands, institutions have been set up by business groups, with support from USAID, to respond to their concrete needs. Gerentes y Empresarios Asociados de Honduras [Associated Managers and Entrepreneurs of Honduras] (GEMAH) was created in 1980, and the Centro Asesor para el Desarrollo de Recursos Humanos de Honduras [Honduran Human Resources Development Advisory Center] (CADERH) was established in 1984. The purpose of GEMAH is to train and upgrade management and administrative teams. CADERH is a private not-for-profit institution established to identify training requirements and develop occupational certification plans. Its mission is broader than that of GEMAH, and it has performed a regulatory role to compensate for an inefficient public sector. It has become a national leader in training issues.
- 2.14 CADERH operates as a quality filter to upgrade labor entering the market. It prepares and develops programs for training and technical assistance, interinstitutional cooperation, and occupational and vocational certification. It also trains teaching, technical, administrative, and management personnel. However, its sphere of action is limited since it operates with a modest budget compared to INFOP.
- 2.15 Like other private nonprofit organizations, CADERH has received support from USAID since it was founded, which has been gradually reduced as the institution moves towards self-sustainability. An agreement between the United States and Honduran governments reached in August 1995 made CADERH responsible for administering and implementing several of the components in the basic education and technical training project (BEST). This helped CADERH cover the deficit generated by less than full cost recovery on its vocational training centers. Although CADERH does not generate large surpluses, it is a good example of volunteer work, since its board of directors, mainly composed of successful businessmen, receives no pay for its work. The activities that are self-financing are technical assistance, training, and certification offered directly to private enterprises. In recent years CADERH has seen growing demand for these income-generating services.
- 2.16 Since it was established, CADERH has developed certification materials and skills-based training for 32 occupations, and has compiled standards and international certification tests for workers in enterprises that export products or participate in international bidding. Business confidence in the certification process is demonstrated by the fact that 80% of graduates from vocational centers supported by CADERH find jobs, with a job retention rate of about 70%.

- 2.17 Given low educational attainment in Honduras, one useful, suitable and cost-efficient approach is skills-based training (SBT). This method does not require high levels of basic education to enable the recipient to absorb instruction and is appropriate for training manual laborers as well as administrative employees. The SBT curriculum is modular and prepares students for a specific trade at the minimum standards level, using theoretical and practical tests to objectively verify skills. When students pass their examinations, the center issues them a certificate and a card, valid for two years, that entitles them to practice a trade. CADERH uses the SBT method as a major step toward creating a program based on the quality standards required by private industry for specific occupations. It offers business owners an objective mechanism that lends confidence in the skills of current and new employees.
- 2.18 The private sector is making considerable progress in tackling the problem of training in a global context. One example is the major transformation initiative [Gran Proyecto de Transformación], which consists of various investment projects and amendments to key laws to facilitate its execution. One of the task forces working on the transformation initiative focuses on promoting training and reforming the delivery of training services. The business owners belonging to the Consejo Hondureño de la Empresa Privada [Honduran Private Enterprise Council] (COHEP) are working on a proposal to amend the law governing INFOP, to privatize it and eliminate its monopoly position. INFOP realizes that it is at a decisive stage and that it must actively participate and cooperate with business and labor groups to bring about changes in the training system on the national level.

C. Justification of the project

- 2.19 To boost the productivity and competitiveness of private enterprises in Honduras and improve their position on global markets, the strategy for change is centered on human resource training tailored to the needs of each company. As enterprises invest in continuing training for their employees, they will be better equipped to adapt to changes imposed by competition.
- 2.20 The proposed project is part of the strategy described, based on the following premises: it is built around training for workers employed in enterprises and is targeted to business needs as a whole to meet current requirements and improve the quality of final products.
- 2.21 The project consists of boosting the competitiveness and productivity of private enterprises in the tourism, wood processing, and construction industries, through better worker efficiency. The project will provide financial support for SMEs in sectors with high growth potential to train their workers. In such cases, employers will be required to pay 50% of the cost of the training by way of counterpart contribution. Simultaneously, to help boost



the quality and quantity of the supply of training services, the project will provide technical assistance for the introduction of new methodologies such as SBT and others that are flexible enough to adjust to demand. Pilot projects will also be carried out to lay the groundwork for a national occupational standards and certification program.

- 2.22 The aim is to create a major demonstration effect through concrete experiences that will increase private sector participation in training. Experience in other countries has shown that incentives similar to those proposed in this project have had a very favorable impact on spurring investments in training. Evaluations of similar projects have shown that a significant segment of the universe of businesses receiving an incentive has continued to invest in training for employees even after the incentive has ended. 4/
- 2.23 If Honduras is to grasp the opportunities for economic growth, more is required than just training for the private sector workforce. However, all efforts to develop these three sectors, and others as well, will fail if employees do not have the skills required. There is no country in the world that has developed rapidly without making sizeable investments in human capital formation.

### III. THE PROJECT

#### A. Objectives

- 3.1 The general objective of the project is to boost the competitiveness and productivity of private enterprises in the tourism, wood processing, and construction sectors through greater workforce efficiency.
- 3.2 The specific objectives are to: (a) encourage small and medium-sized entrepreneurs in the construction, tourism, and wood processing sectors to invest in training their employees; (b) promote an improvement in the supply of training services to respond to private sector requirements; and (c) generate experiences that can serve as models for a future national occupational certification program.

#### B. Program components and activities

- 3.3 The project will consist of three components to attain the above objectives: (a) incentives for training in private enterprises;

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4/ Informe de Actividades 1993-1994. Programa Calidad Integral y Modernización. Secretaría de Trabajo y Previsión Social. Subsecretaría B. Mexico.

(b) training of trainers and a trainers roster; and (c) promotion of a national occupational standards and certification program.

1. Component I. Incentive for training in private enterprises

- 3.4 Component I, which will begin in the early months of the project, is intended to encourage small and medium-sized enterprises in the three sectors selected to invest in training their employees. SMEs will be given an incentive to introduce on-the-job training plans based on their requirements. The incentive consists of payment by the project of 50% of the cost of the training. Public competitions will be held to obtain the incentives, which will be publicized as widely as possible throughout the country. Enterprises will be eligible to receive the incentives on a one-time basis, for up to 160 hours of training per employee, or the equivalent of US\$2,200 per enterprise.
- 3.5 The target of the component is to train 5,250 employees in 270 enterprises in two years. Training will mainly be provided on the job, using skills-based training and/or similar methods. Since the program is targeted to enterprises, they will be the main beneficiaries and will learn to define human resource development plans and select appropriate trainers, which will boost company productivity. Employees, whose skills will improve, will be more likely to earn more. It is hoped that the incentive and the SBT training will lead these enterprises to certify their employees.
- 3.6 Interested enterprises will be eligible to participate in the project if they meet the following requirements: (a) belong to one of the three selected sectors; (b) are classified as small or medium-sized in their industrial sector; (c) have the capacity to finance the counterpart training costs; and (d) have not received an incentive for another training event under this project.
- 3.7 With support from CADERH, enterprises that meet these requirements will perform a rapid functional diagnosis to determine their specific requirements, proposals outlining their specific needs, and short- and medium-term human resource development plans. Proposals will be declared eligible provided the estimated total cost does not exceed US\$4,400 equivalent. The enterprise will then sign an agreement with CADERH, based on a model approved by the Bank, which sets out its responsibilities as a recipient of funds, including commitments to contribute 50% of the financing for the training project, participate in follow-up and a results impact analysis, and abide by the Bank's rules and MIF eligibility criteria in selecting and contracting the training services. The project will provide a list of prequalified trainers (see component II). To facilitate the process of contracting trainers and ensure consistency, CADERH will provide a model contract, previously approved by the Bank, to be used by the enterprises, which will hire the trainers directly.

- 3.8 Program promotion is an important task within this component. CADERH will conduct a national promotion campaign to alert enterprises in all three sectors to opportunities for participating in the project and thereby investing in training. To this end, CADERH will hire a consulting firm to design and carry out a promotion and dissemination campaign by component. Since Honduras is just beginning to transform its training system, it is important to publicize the results of the project. Therefore an extensive program will be financed for follow-up, evaluation, and dissemination of results. A study will be conducted to quantify the impact of the training on the average productivity of beneficiary enterprises, whenever that parameter can be measured. The indicators will be identified by the enterprises themselves, with assistance from a consulting company that specializes in evaluation (see paragraph 10.2), to ensure that they are appropriate and representative of the needs of each industry. The results will be disseminated through networks of business associations and various national media.

## 2. Component II. Training of trainers and trainers roster

- 3.9 The second component will also get under way in the first year of the project. Its purpose is to improve the supply of training services to respond to private sector requirements. It will serve to meet the training needs of enterprises using the incentive provided under the first component, while simultaneously ensuring a high quality supply. The following results are expected upon completion: (a) a supply of better qualified instructors; and (b) a roster of training providers who meet quality standards.
- 3.10 This component will finance training for a group of trainers. Specialists from CADERH will give courses in new methodologies on site and provide practical instruction that focuses on company requirements. The goal is to train up to 270 trainers with concrete know-how and experience in one of the three industries that will participate in the first component. Prior to offering the training, an international specialist will be hired to provide technical assistance in updating the CADERH curricula. The consultant will also be responsible for verifying the qualifications of CADERH specialists and providing upgrading courses if necessary.
- 3.11 Project funds will be used to finance 50% of the cost of training the trainers, on a one-time basis. Upon completion of the course the instructors will have to pass a test which will make them eligible to offer their services under the first component.
- 3.12 To reach the trainers, CADERH will mount a publicity campaign on the national level. Participants in this component will be personnel from private institutes or independent technicians/operators who are competent to provide instruction on technical aspects.

- 3.13 Institutions will be eligible to receive training if they meet the following criteria: (a) are legally constituted; (b) have not less than three years experience; (c) have a minimum of five instructors to provide on-site training; (d) have good references in the business community; and (e) have financial capacity. Individuals affiliated with institutions and independent instructors will have to meet the following requirements: (a) have a minimum of five years in the pertinent branch of industry and at least three years in the field of training; (b) have graduated from a technical center (formal or informal); and (c) hold a certificate or academic diploma.
- 3.14 Establishing a roster of institutions and independent trainers that offer private training and have complied with the minimum requisites will serve to organize the supply of services and make it more transparent. It will also serve to prequalify institutions and individuals able to provide training under the first and third components. The project will finance consulting services to set up the roster on the basis of criteria agreed upon by the Bank and CADERH, including: (a) the results of the training and the employment rates of graduates; (b) the availability of facilities to conduct training programs (classrooms/workshops, laboratories); and (c) the methods used. In the long term, the roster will be of benefit to the private sector in the country, since at present it does not have reliable information on training programs geared to its needs.

3. Component III. Promotion of the national occupational standards and training program

- 3.15 One key element in reform of the training system in Honduras is to establish objective mechanisms to measure employee skills and ensure a close match between labor demand and the supply of training services. A system of occupational standards and certification, similar to the one being developed through CADERH, is a good way of meeting these needs. The process that CADERH has been carrying out for 10 years now is an important step, but it needs to be converted into a national program if it is to have a substantial impact on the productivity of Honduran industry.
- 3.16 The experience of other countries has shown that enterprises do not generally have much interest in participating in the creation of a national certification program, since the process is slow at the outset, the short-term benefits are small, and the initial investment costs are high. Experience also shows that to raise awareness at every level of the private sector, it is important for strategic and highly visible industries to participate in developing occupational standards and a certification mechanism.
- 3.17 To help Honduras move forward in this process, the objective of component III is to generate experiences that can serve as models for a future national occupational standards and certification

program (PRONECO). The project will finance international technical assistance to analyze the current certification process used by CADERH and define a strategy for establishing a national program. Two industrial groups will be selected for the development of occupational standards, which will involve private business, labor, and training institutions. Each industrial group must have, as a minimum, an industrial association or business chamber and two enterprises represented by labor and management. During the project, the group may be enlarged to include other enterprises, training institutes specializing in the sector, and other institutions such as research centers. To ensure the widest possible demonstration effect, each industrial group should be led by a large company that complies with the following criteria: (a) belongs to one of the three sectors identified (tourism, wood processing, construction); (b) employs a minimum of 100 people; (c) enjoys prestige in the sector; and (d) is able to contribute the counterpart funds.

- 3.18 CADERH will carry out a national promotion campaign in the three sectors to inform enterprises about the opportunities for participating in these pilot projects and will also assist interested enterprises in obtaining commitments from as many representatives as possible to establish the industrial group. The first two groups that apply, provided they meet the requirements, will receive support from the project.
- 3.19 The pilot projects will serve to hone the methods used by CADERH, incorporate international experience, and foster greater participation by business. Each pilot project will have two main stages. The first consists of: (a) definition and validation of approximately four occupational standards; and (b) the development of curricula and performance tests based on those standards. Once these tasks have been completed, one enterprise in each industrial group will undertake the second stage of the pilot project which consists of: (a) training and application of the performance tests for a sample of employees; and (b) certification of employees. Specialists will develop an appropriate process based on existing experience, with international technical assistance at various stages. There will also be exchanges between the industrial groups and CADERH with other countries to study the processes followed there.
- 3.20 Each industrial group will sign an agreement with CADERH, based on a model approved by the Bank, setting out their responsibilities as recipients of the funds and containing a commitment to provide counterpart resources including 50% of the total cost of training and certification under the pilot project; participate in follow-up and evaluation of the results; and abide by Bank rules and MIF eligibility criteria in the selection and contracting of training services.

- 3.21 This component also contains a strategy to promote national dialogue on labor standards and certification. INFOP, training enterprises, chambers of commerce and business associations, and labor organizations will be invited to participate in this dialogue. Also included is the dissemination of information on international experiences, particularly in other Latin American countries that have made progress in establishing similar programs. As a result of this component, the country will gain concrete experience for implementing a national certification program; an improved methodology for CADERH that can be duplicated on the national level; greater awareness of the advantages of certification; and more discussion regarding the need to adopt a national occupational standards and certification program. These results will help to establish a political and institutional framework for a national program of this kind.

C. Project sustainability

- 3.22 Sustainability of the project during implementation is based on the MIF grant, which will serve as a catalyst to finance the necessary technical assistance; spur training for company employees; gear training to demand; and begin a dialogue to lay the groundwork for future reform of the national training system. CADERH's experience in implementing similar projects and its links to the business sector will provide further support during the project.
- 3.23 Contributions of counterpart funds by businesses, thus demonstrating their commitment to investing in training, will make the activities launched under the project sustainable. It is hoped that the pilot experience will have a demonstration effect that will lead private enterprises in Honduras to shoulder more responsibility for human resource development and to continue to invest in training programs.
- 3.24 In the long term, sustainability will not simply be based on the continuation of project activities, but also on reforms to the training system whose feasibility will be demonstrated under this pilot project.

#### IV. COST AND FINANCING

A. Costs

- 4.1 The total cost of the project is an estimated US\$3 million, of which US\$1,950,000 will be financed with nonreimbursable MIF funding (Facility II) and US\$1,050,000 from the local counterpart. The counterpart will be covered by CADERH contributions and the private enterprises benefitting from components I and III and the trainers and institutes benefitting from component II. A summary

of the project costs is given in the following table. Annex II presents a detailed budget estimate.

Cost in US\$

Category	MIF	Counterpart		Total
		CADERH	Other	
I. Component I: Training incentives	774,675	0	673,875	1,418,550
II. Component II: Training of trainers and trainers roster	182,400	3,000	30,000	215,400
III. Component III: Promotion of national occupational standards and certification program	285,025	15,000	124,750	424,775
IV. Results evaluation and dissemination	328,000	0	0	328,000
V. Minor equipment procurement and study trips	23,900	0	0	23,900
VI. Technical support	211,500	28,500	0	240,000
VII. Administrative expenses	0	166,860	0	166,860
VIII. Contingencies and escalation	174,500	6,640	1,375	182,515
<b>Total</b>	<b>1,950,000</b>	<b>220,000</b>	<b>830,000</b>	<b>3,000,000</b>

## V. ORGANIZATION AND IMPLEMENTATION

### A. Organization

- 5.1 CADERH will execute the program over three years. All the components will begin in year one. The center will execute the second and third components directly and administer distribution of the incentive under the first component, during which time it will refrain from carrying out training directly or indirectly related to the enterprises receiving an incentive.
- 5.2 CADERH will establish an executing unit devoted exclusively to this project. It will open a special bank account to ensure that all project funds are kept separate from the organization's budget. The unit will have the following full-time staff during the three years of the project: a project coordinator who will also be responsible for component III, an accountant, and a secretary. Also, one specialist to take charge of component I and one for component II, a secretary, and an accounting assistant will be hired according to the project's schedule of activities as agreed upon by CADERH and the Bank. The terms of reference for the

B. The executing agency

- 5.3 CADERH is an institution with close ties to the private sector. It enjoys institutional stability and plays a leadership role in Honduras. It has experience in managing international funds and cooperation programs, particularly as a second-tier institution. Its administrative apparatus is small and it operates through ad hoc contracts with experts and administrators, based on need. It currently employs a total of 90 people, 60 of whom are professionals and 30 are administrative support staff. CADERH can also draw on a large group of professionals for specific contract work. The operating units in its education development department are: certification (academic and occupational), curriculum development (produces training modules for SBT), educational research, and institutional and social development. CADERH was selected for this project because of its leadership in the sector, its experience in the certification process, its ties with private enterprises, and its experience in administering projects financed with international funds.

C. Procurement and disbursements

- 5.4 IDB procedures and MIF eligibility criteria will be followed for procurement and contracts under the program and disbursements.
- 5.5 Conditions precedent to the first disbursement. CADERH will present the following to the Bank: (a) evidence that the project coordinator and accountant have been hired, as established in the IDB's procedure for contracting consulting firms and individual consultants; and (b) evidence that the executing unit has the logistical support required for its operations in terms of space, installations, services, and office equipment.
- 5.6 Special contractual conditions. (a) For component I: (i) in selecting training projects, CADERH will follow the procedures and eligibility criteria described in paragraphs 3.4 to 3.8; (ii) enterprises that present eligible proposals will be required to sign an agreement with CADERH, based on a model approved by the Bank, establishing their responsibilities as recipients of funds, including commitments to provide 50% of the funds for their training projects, to participate in follow-up and evaluation of the results, and to abide by Bank rules and MIF eligibility criteria in the selection and contracting of training services. (b) For component III, prior to disbursement of funds for the pilot projects, each company will be required to sign an agreement with CADERH, based on a model approved by the Bank. The contractual conditions will be set forth in the project's action plan.
- 5.7 Four months after the date of the agreement, CADERH will present: (a) evidence that it has contracted the consultants responsible for components I and II; and (b) a plan of action to the Bank's satisfaction for each of the project's components, indicating



goals, activities, the timetable and the funds required from the MIF and the local counterpart. Five months after the date of the agreement CADERH will present evidence that it has contracted a consulting firm to monitor and evaluate the project's results.

- 5.8 Once the conditions precedent have been fulfilled, at the request of the executing unit and based on the proposed plan of execution, it is recommended that an advance equivalent to 10% of the MIF contribution be approved to permit CADERH to carry out activities in the first 120 days of the project. The executing unit will furnish documentation to justify the advance. The funds will be deposited in the unit's special account for the project.

D. Execution schedule

- 5.9 The project will be executed over 36 months and the disbursement period will be 42 months, except for one payment of up to US\$100,000 to the consulting firm that will perform the ex post evaluation of the project. The disbursement period for that payment will be an additional 12 months. Annex III presents the timetable of activities.

E. Monitoring

- 5.10 For adequate program control and monitoring, CADERH will prepare and present the following reports to the Bank, which will contain comments and recommendations: (a) a mid-term report, after 18 months, which will discuss project performance, propose any necessary adjustments, describe progress in each of the components, review the annual work plans and budget requirements, evaluate the efficiency of project administration and coordination, and present proposals to address problems or to adjust the timetable; and (b) a final report which will be submitted by the coordinator within 30 days after the end of the program.
- 5.11 Owing to the innovative nature of the project, annual supervisory missions will be required, in which the project team will participate. If necessary, external experts will be hired with project funds to participate in the supervisory missions.

## VI. FEASIBILITY AND RISKS

- 6.1 The main risk is that the small and medium-sized enterprises participating in the project will not recognize the advantages of training as a means of boosting their productivity, which means that the project would not have the expected catalytic effect. To forestall this risk, promotion and continuous dissemination of the results in real time have been planned to demonstrate the economic

advantages of developing training plans and an occupational certification program.

- 6.2 CADERH's role in project execution also entails some risks. First, any possible bias that it could develop in awarding contracts to new vocational training centers entering the market must be avoided. Private supply must be as diversified as possible if it is to be competitive with regard to quality. The risk will be minimized through the roster of private suppliers, which provides an objective classification of instructors, selected on the basis of demand from businesses. The traditional ties between CADERH and medium-sized and large enterprises are a further risk. It is necessary for the benefits of training to be extended to small enterprises operating in Honduras, and special care must be taken to ensure they are adequately represented among the participants selected.

## VII. FULFILLMENT OF PROJECT ELIGIBILITY CRITERIA

### A. General project eligibility criteria

- 7.1 The proposed project is consistent with the Agreement Establishing the Multilateral Investment Fund, particularly with Article I (c) and (d) on stimulating entrepreneurial activities and bearing certain of the costs associated with investment reforms and an expanding private sector.

### B. Facility criteria for project eligibility

- 7.2 The project is consistent with the funding criteria for the MIF's Human Resources Facility, particularly Article III, Section 3, whose purposes include developing the human resource base needed for increased investment flows and an expanded private sector.

## VIII. COMPATIBILITY WITH THE BANK'S COUNTRY PROGRAM

- 8.1 The proposed project is compatible with the Bank's country strategy for the period 1995-1997, which is based on continued support for the adjustment process in the public, legal, and financial sectors, through fresh medium- and long-term financing to facilitate diversification of Honduras's productive capacity. The strategy focusses on: (a) human capital development; (b) increased productivity of investment (public and private); and (c) removal of financial restrictions that hamper the government's work. Human capital development is recognized as indispensable for reducing poverty, improving health and education indicators, and achieving sustainable and equitable growth. If the country does not have a

solid human-resource base (high levels of education, training and health), the public and private sectors will encounter major difficulties in increasing their productivity and competitiveness, and in providing adequate goods and services.

#### IX. AVAILABILITY OF MIF FUNDS

- 9.1 **Modality.** The project will be financed through a grant, on the following basis: (a) Honduras was declared eligible for all types of MIF funding by the Donors Committee on December 14, 1994; (b) fulfillment of the eligibility requirements to obtain country funds (Article 3, Section 5 (b) of the Agreement Establishing the MIF) is described in section III of the country eligibility memorandum; and (c) the project will have a major catalytic effect on investment flows as required in Article 3, Section 5 (a) of the Agreement, since its objective is to boost the quality of training to meet the demands of the private sector for a better-qualified workforce.
- 9.2 **Use of MIF funds.** No restrictions apply on the employment of MIF funds in Honduras or for this specific project.

#### X. EVALUATION

- 10.1 Five months after the agreement is signed, at the latest, CADERH will contract a consulting firm to design a follow-up and evaluation system. It will hire the firm through an international selection process in accordance with terms of reference approved by the Bank. The firm will define the methodology and indicators to be used in overall project evaluation and in the evaluations of the impact of training under components I and III. The methodology will include the form and timing of the collection of information for follow-up on activities and for general project evaluation. In addition to the evaluation reports, the firm will prepare and submit quarterly progress reports to the Bank describing activities in each period.
- 10.2 The executing unit will be responsible for implementing the follow-up and evaluation system and the consultant will evaluate project implementation and propose any necessary adjustments. The information to be used for follow-up and monitoring will include the opinions of the entrepreneurs and will be based on the logical framework presented in Annex I. The indicators include: (a) employee productivity in the participating enterprises; (b) number of substandard products; (c) number of work-related accidents; (d) organization of work; (e) employment history of the employees/trainers evaluated; (f) standards prepared and ease of

application; (g) new enterprises applying the pilot projects; and (h) level of acceptance by employees, enterprises, business associations, unions, chambers of commerce, and the public sector.

- 10.3 Three reports will be made on general evaluation of the project: (a) a mid-term evaluation after 18 months; (b) a final evaluation at the end of three years; and (c) an ex post evaluation one year after the program is completed. The mid-term evaluation will include an analysis of progress toward the targets, such as the number of enterprises participating in the training incentive component, and the number of trainers trained and certified. Any necessary adjustments to the project will be proposed. The mid-term and final evaluations will study the effectiveness of the project and compliance with its objectives, while the ex post evaluation will focus on the project's impact and scope. The evaluations of the impact of training on the enterprises participating in components I and III will be performed by the consulting firm, with active participation by the enterprises. The evaluations will be used during the project to disseminate results, promote PRONECO, and as inputs for general evaluation.

# INCENTIVES FOR PRIVATE SECTOR INVESTMENT IN TRAINING LOGICAL FRAMEWORK

	Indicators	Means of verification	Major assumption
Business and productivity of enterprises in selected sectors	<p>Annually, for four years after the agreement is signed:</p> <ul style="list-style-type: none"> <li>- Increase in production by participating enterprises (base year 1996)</li> <li>- Increase in productivity by participating enterprises (base year 1996)</li> <li>- Increase in sales by participating enterprises (base year 1996)</li> </ul>	<ul style="list-style-type: none"> <li>- Accounting and production control records</li> <li>- Financial studies</li> <li>- Evaluation surveys</li> </ul>	<ul style="list-style-type: none"> <li>- Political and economic stability is maintained</li> <li>- Globalization policy in place</li> <li>- Inflation and bank interest rates hold steady or</li> </ul>
Enterprises are motivated to invest in training for their employees	<p>Annually for four years after the agreement is signed:</p> <ul style="list-style-type: none"> <li>- Comparative investment in training by occupational level by enterprises (base year 1996)</li> <li>- Minimum of 75% compliance with the annual training program</li> </ul>	<ul style="list-style-type: none"> <li>- Surveys conducted among private enterprises and enterprises offering training</li> <li>- Project evaluation results</li> </ul>	<ul style="list-style-type: none"> <li>- Complementary business development services in the areas of marketing, administration, production regulation</li> </ul>
Enterprises have incentive for training in their enterprises	<p>At the end of the second quarter of year three:</p> <ul style="list-style-type: none"> <li>- 270 enterprises participating in the program</li> <li>- 5,250 employees trained to employers' satisfaction (minimum of 75%)</li> <li>- Six dissemination events held with demand for program services by a minimum of 30% of those attending</li> <li>- Reduction in delivery time by 25%</li> <li>- Reduction in turnover of trained employees by 10%</li> <li>- Reduction of waste and substandard items by 30%</li> </ul>	<ul style="list-style-type: none"> <li>- Reports and inspection visits</li> <li>- Report on the promotion campaign</li> <li>- Report on dissemination seminars</li> <li>- Surveys of private enterprises</li> <li>- Project evaluation results</li> </ul>	<ul style="list-style-type: none"> <li>- Pace of growth remains in each sector</li> <li>- Entrepreneurs realize training is an investment</li> </ul>

	Indicators	Means of verification	Major assumptions
g of trainers and roster ate training suppliers	At the end of the first quarter of year two: - 40 training enterprises evaluated and registered - 270 trainees registered - 30 specialists certified	- Reports and inspection visits - Report on the promotion campaign - Report on dissemination seminars - Evaluation and roster results	- Supply of trained trainees remains steady
on national ional standards and cation program (PRONECO) ken and promoted	At the end of the third quarter, year three: - Two strategic enterprises or groups of enterprises selected - 300 employees certified - Standards that are easy to apply have been prepared for the sectors by the end of year two - Participants in seminars demanding the standards	- Reports and inspection visits - Report on the promotion campaign - Report on dissemination seminars - Project evaluation results	- INFOF is reformed
ve for private ise training g of trainers and roster oliers e on promotion of 0 tion and dissemination of s ement of minor equipment udy trips cal support strative costs encies and escalation	Budget in US\$ executed at the end of 42 months  1,418,550  215,400  424,775  328,000  23,900  240,000  166,860  182,515  3,000,000	- Budget execution reports - Financial statements - Program progress reports	- Availability of infrastructure of the quality and quantity required for the project - Entrepreneurs are willing to participate in the project - Trainers are interested in participating - There is a sufficient number of agencies and individuals - Leading enterprises in strategic sectors are interested in participating - Disbursements are timely and adequate

The consulting firm hired to design the monitoring and evaluation system midway through year one of execution will devise absolute values for indicators, and those given here will be updated accordingly.

## INCENTIVES FOR PRIVATE SECTOR INVESTMENT IN TRAINING

### DETAILED BUDGET

	MIF	CADERH	OTHERS	TOTAL
I. COMPONENT I: INCENTIVE FOR TRAINING IN PRIVATE ENTERPRISES				
(a) Promotion/publication of invitation to bid	6,300			6,300
(b) International consulting regulations and documents	14,000			14,000
(c) Diagnosis of enterprises	70,875		70,875	141,750
(d) Training programs in enterprises	600,000		600,000	1,200,000
(e) Follow-up and impact evaluation	31,000		3,000	34,000
(f) Dissemination of results	22,500			22,500
SUBTOTAL	744,675	0	673,875	1,418,550
II. COMPONENT II. TRAINING OF TRAINERS AND TRAINERS ROSTER				
(a) Training of trainers	30,000		30,000	60,000
(b) Promotion/publication of invitation to bid	6,300			6,300
(c) Dissemination seminars	9,900			9,900
(d) Int. cons. to update CADERH curricula	11,400			11,400
(e) Upgrading CADERH specialists	72,000	3,000		75,000
(f) Certification CADERH specialists	7,800			7,800
(g) Application of performance tests or cert.	30,000			30,000
(h) Roster of training providers	15,000			15,000
SUBTOTAL	182,400	3,000	30,000	215,400
III. COMPONENT III. PROMOTION OF NATIONAL OCCUPATIONAL STANDARDS AND CERTIFICATION PROGRAM				
(a) Int. consult. CADERH certification analysis	5,250			5,250
(b) Local consult. in certification	3,200			3,200
(c) Int. consult. on PRONECO strategy	13,125			13,125
(d) Coord. liaison pilot project in enterprises (part time)			9,000	9,000
(e) Functional analysis of pilot project enterprises	10,500			10,500
(f) Acquisition of int. standards	8,400			8,400
(g) Development of curricula and educ. materials	11,000	5,000		16,000
(h) Development of performance tests	15,000	10,000		25,000
(i) Preliminary application of tests	6,750		6,750	13,500
(j) Training in applying new curricula	100,000		100,000	200,000
(k) Final certification	7,800		7,800	15,600
(l) Follow-up and evaluation of results	15,000		1,200	16,200
(m) Study trips/exchanges	45,000			45,000

ANNEX II

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	MIF	CADERH	OTHERS	TOTAL
(n) Promotion in strategic sectors	24,000			24,000
(o) National dialogue seminar	20,000			20,000
SUBTOTAL	285,025	15,000	124,750	424,775
IV. EVALUATION AND DISSEMINATION OF RESULTS				
(a) Int./local consultants	220,000			220,000
(b) Workshops on PRONECO strategy	8,000			8,000
(c) Consult. on design/implementation national campaign	100,000			100,000
SUBTOTAL	328,000	0	0	328,000
V. PROCUREMENT OF MINOR EQUIPMENT AND STUDY TRIPS				
(a) Two computers with printers and software	8,000			8,000
(b) Fax machine and photocopier	8,000			8,000
(c) Internet installation and subscription	400			400
(d) Int. study trips, executing agency	7,500			7,500
SUBTOTAL	23,900	0	0	23,900
VI. TECHNICAL SUPPORT				
(a) Fees general coordinator (Comp. III)	66,500	28,500		95,000
(b) Fees specialist (Comp. I)	52,000			52,000
(c) Fees specialist (Comp. II)	36,000			36,000
(d) Fees accountant	57,000			57,000
SUBTOTAL	211,500	28,500	0	240,000
VII. ADMINISTRATIVE COSTS				
(a) Executive secretary		21,600		21,600
(b) Secretary (years 2 and 3)		9,000		9,000
(c) Accounting assistant (years 2 and 3)		14,400		14,400
(d) Office facilities and services		72,000		72,000
(e) Office equipment		9,000		9,000
(f) Communications and internet subscription		19,260		19,260
(g) Domestic inspection travel		21,600		21,600
SUBTOTAL	0	166,860	0	166,860
VIII. CONTINGENCIES AND ESCALATION	174,500	6,640	1,375	182,515
TOTAL	1,950,000	220,000	830,000	3,000,000



TIMETABLE

ACTIVITY	Year one (quarter)				Year two (quarter)				Year three (quarter)			
	1	2	3	4	1	2	3	4	1	2	3	4
COMPONENT I. TRAINING INCENTIVE												
Promotion	✓	✓	✓		✓		✓					
Publication of invitation to bid	✓											
Finalize contract regulations	✓											
Diagnosis of enterprises		✓	✓	✓								
Training programs in private enterprises			✓	✓	✓	✓	✓	✓				
Follow-up and evaluation of results	✓	✓			✓	✓	✓	✓	✓			
Dissemination of results					✓	✓	✓	✓	✓	✓		
COMPONENT II. TRAINING OF TRAINERS AND ROSTER OF PRIVATE SUPPLY												
Promotion and publicity, invitation to apply	✓	✓	✓									
Dissemination seminars	✓		✓	✓								
Development and updating of CADERH curricula	✓	✓										
Upgrading and certification of CADERH specialists		✓	✓									
Training of trainers		✓	✓	✓	✓							
Evaluation and roster of institutions and trainers		✓	✓									
COMPONENT III. PROMOTION OF THE NATIONAL OCCUPATIONAL STANDARDS AND CERTIFICATION PROGRAM (PRONECO)												
Promotion and information for general public	✓	✓	✓			✓		✓				
Analysis of CADERH certification	✓											
PRONECO strategy definition	✓											
Functional analysis of enterprises for industrial groups		✓										
Standards and certification processing			✓	✓								
Development of curricula and educational materials				✓	✓							
Development and application of performance tests					✓	✓						
Training in applying the new curricula							✓	✓				
Final certification								✓	✓			
Study trips/exchanges			✓		✓		✓					
Follow-up and evaluation of impact				✓		✓		✓	✓	✓		
Promotion in strategic sectors				✓	✓	✓			✓	✓	✓	
National dialogue seminars on PRONECO						✓					✓	
EVALUATION AND PROMOTION OF RESULTS												
Project follow-up and evaluation	✓		✓			✓			✓		✓	✓
Workshops to discuss PRONECO strategy		✓								✓		
Design and implementation of national publicity campaign	✓		✓		✓		✓				✓	✓
International study trips, executing agency			✓				✓			✓		✓

PROPOSED RESOLUTION

HONDURAS. NONREIMBURSABLE TECHNICAL COOPERATION FOR AN INCENTIVE PROJECT FOR  
PRIVATE ENTERPRISE INVESTMENT IN TRAINING

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the "Centro Asesor para el Desarrollo de los Recursos Humanos de Honduras" and to take such additional measures as may be pertinent for the execution of the project memorandum referred to in Document MIF/AT-\_\_\_\_\_, with respect to technical cooperation for an incentive project for private enterprise investment in training.

2. That up to the sum of US\$1,950,000, or its equivalent in other convertible currencies, is authorized for the purposes of this resolution, chargeable to the resources of the Human Resources Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.