

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**CHILE**

**PROGRAM TO STRENGTHEN THE LABOR INTERMEDIATION SYSTEM IN CHILE**

**(CH-L1135)**

**LOAN PROPOSAL**

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## **ABBREVIATIONS**

BNE	Bolsa Nacional de Empleo [National Job Exchange]
ILO	International Labour Organization
LIBOR	London Interbank Offered Rate
MTPS	Ministry of Labor and Social Welfare
OECD	Organization for Economic Cooperation and Development
SEALC Network	Red Apoyo Técnico de los Servicios de empleo de América Latina y el Caribe [Technical Support Network for Employment Services in Latin America and the Caribbean]
SENCE	Servicio Nacional de Capacitación y Empleo [National Training and Employment Service]
WAPES	World Association of Public Employment Services

## PROJECT SUMMARY

### CHILE PROGRAM TO STRENGTHEN THE LABOR INTERMEDIATION SYSTEM IN CHILE (CH-L1135)

Financial Terms and Conditions					
Borrower: Republic of Chile			Flexible Financing Facility <sup>(a)</sup>		
			Amortization period:	12 years	
Executing agency: Ministry of Labor and Social Welfare (MTPS), acting through the Office of the Undersecretary of Labor			Original weighted average life:	12 years	
			Disbursement period:	2 years	
Source	Amount (US\$)	%	Grace period:	Bullet payment at 12 years	
IDB (Ordinary capital):	100 million	100	Inspection and supervision fee:	(b)	
			Interest fee:	LIBOR-based	
			Credit fee:	(b)	
Total:	100 million	100	Approval currency:	U.S. dollars from the Ordinary Capital	
Program at a Glance					
Program objective/description: The program's objective is to improve the integration and delivery of labor intermediation services for job seekers and companies in Chile. To that end, it will support policy actions aimed at achieving the following specific objectives: (i) reformulate the governance model of the public agencies operating in the labor intermediation system; (ii) match the supply and delivery of labor intermediation services provided by public agencies and restructure the management model for these services; and (iii) move forward with the expansion and coordination of a labor market information system and the generation sector knowledge.					
Special contractual conditions: Disbursement of each of the loan's two tranches is subject to the fulfillment of the policy reform measures as described in the program's components, the policy matrix (Annex II), and the other conditions established in the loan contract (paragraph 3.4).					
Exceptions to Bank policies: None.					
Strategic Alignment					
Challenges: <sup>(c)</sup>	SI	<input checked="" type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI <input type="checkbox"/>
Cross-cutting themes: <sup>(d)</sup>	GD	<input checked="" type="checkbox"/>	CC	<input type="checkbox"/>	IC <input checked="" type="checkbox"/>

<sup>(a)</sup> Under the terms of the Flexible Financing Facility (document FN-655-1) the Borrower has the option of requesting changes in the amortization schedule as well as currency and interest rate conversion. The Bank will take operational and risk management considerations into account when reviewing such requests.

<sup>(b)</sup> The credit fee and the 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 relevant policies.

<sup>(c)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(d)</sup> GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and the Rule of Law).

## I. PROGRAM DESCRIPTION AND RESULTS MONITORING

### A. Background, problems, and rationale

- 1.1 **Macroeconomic context.** Chile is among the countries of the region with the best macroeconomic performance. Between 2006 and 2015, it grew at an average of 3.7% per year, with growth of 5.3% between 2010 and 2013, and 2% since 2014, due to a less favorable international context. The country is now experiencing a phase marked by slower growth. This slowdown, coupled with increased spending commitments for structural reforms (e.g., the education sector), has resulted in tighter fiscal balances for Chile. Specifically, the structural fiscal deficit in 2015 stood at roughly 1.6% of GDP and the gross-debt-to-GDP ratio increased to 17.7%. In social terms, economic growth included a reduction in poverty (down from 17.4% in 2006 to 8.5% in 2015) but not in inequality, as the Gini coefficient has remained at about 0.52.<sup>1</sup>
- 1.2 In terms of the labor market, economic growth has not resulted in significant improvements in labor participation, employment, unemployment, of informal employment (with rates averaging 65%, 60%, 7%, and 29%, respectively, between 2006 and 2015). This was especially true for vulnerable groups, such as young people, women, and people with disabilities. Young people face unemployment rates that are three times higher than for adults (19.6% compared to 5.9% in 2015). With regard to women, although improvements were seen in labor participation and employment, sharp differences persist by gender. The rate of both short- and long-term unemployment is higher among women than men.<sup>2</sup> Certain groups of women face even greater challenges. For example, among young people with a low level of schooling, women look for work an average of four months, which is one and a half months longer than men. Women's participation in the labor market is 23 percentage points lower than that of men (about 54.9% in 2015). Additionally, women who say that they are available for work account for nearly 80% of the long-term unemployed. Women also account for close to 70% of those who work fewer than 10 hours per week and more than 40% of such women say they would like to work more hours (Economix, 2017). With respect to wages, women's income averages 73% of their male counterparts.<sup>3</sup> Among persons with disabilities, the labor market participation rate is half the national average, and the employment rate is five times lower.<sup>4</sup> Although the data show that these vulnerable groups face greater difficulties entering the labor market, Chile has no studies to facilitate an understanding of the different barriers they face, thus limiting the government's ability to design more effective active labor market policies. Although Chile is one of the region's most productive countries, a gap between Chile and the developed countries remains.

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<sup>1</sup> The Gini coefficient is an indicator of a country's income inequality. It ranges between zero (maximum equality) and one (maximum inequality).

<sup>2</sup> According to National Employment Survey data, the unemployment rate among the long-term unemployed (between 10 and 12 months) is 0.8% among women but 0.6% among men. In addition, the unemployment rate of the short-term unemployed (between 0 and 3 months) is 4.3% among women and 3.3% among men.

<sup>3</sup> The available evidence suggests that job experience plays an important role in Chile's gender-based income gap (Ñopo, 2012).

<sup>4</sup> These figures correspond to people with mild or moderate disabilities. The situation of persons with severe disabilities is even worse. Source: National Study of Disabilities, Ministry of Social Development, 2015.

Productivity per worker was about 46% of the U.S. level between 2006 and 2015 (Conference Board, 2016).

- 1.3 In terms of access to employment, the problems Chile faces may be due to difficulties associated with both supply and demand. On the supply side, the educational/training profile of workers shows limited skills and/or skills incompatible with job market vacancies (IDB, 2015). First, this situation is due to the country's educational and training deficiencies: 44% of workers are functionally illiterate (low reading comprehension capacity) and 51% are innumerate, with even higher percentages among the population with no schooling or who did not complete primary education (Microdata Center, 2013).<sup>5</sup> And second, more than half of Chileans have insufficient information about quality vacancies and use informal job search methods, such as asking friends, family, and employers, and/or by visiting companies in person. This figure jumps to more than 70% among workers with low levels of schooling (National Employment Survey, 2015). These informal methods have limited coverage and are relatively less effective for the most vulnerable population (Mazza, 2017). Both problems result in a disconnect between the skills that companies require in their job vacancies and skills existing in the labor force. On the demand side, half of employers have difficulties finding qualified personnel (European Institute of Business Administration, 2016). In addition, 45.8% of companies report that a workforce without adequate skills is a considerable limitation for production (World Bank, 2016).
- 1.4 In this context, labor policies—and labor intermediation services in particular—can help enhance labor market performance through improved matching between the supply and demand for labor (improving productivity in the workplace) and the reassignment of workers into more productive jobs (IDB, 2016). Labor intermediation services make up a system that includes public agencies (or public employment services, as they are known in many countries), private agencies (e.g., private job exchanges or temporary staffing agencies), and civil society organizations that match people with jobs (International Labour Organization, ILO, 2012). Countries with a developed labor intermediation system serve as the individual's gateway to employment policies, coordinating the entire supply of services based on the logic of achieving better career projections. Profiling instruments<sup>6</sup> are used to determine the type of service the individual needs, seeking to provide an intervention that is both relevant and cost-effective (Nunn, 2016). These public labor intermediation systems offer services directly or match workers and employers with a package of services that goes beyond the match itself and may include: (i) information on the labor market; (ii) job counseling and recruitment services for employers; (iii) training and other active labor market policies; (iv) administration of unemployment insurance; and (v) migration management.

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<sup>5</sup> This program supplements other interventions designed to resolve the educational/training profile problems of people entering the labor market. These problems are specifically addressed by the Program to Improve Technical Vocational Education (loan 3539/OC-CH). As noted in paragraph 1.5, labor intermediation services are usually more effective for individuals with limited employment prospects.

<sup>6</sup> The profiling instrument is a profile creation tool used to: (i) diagnose individual strengths and weaknesses with the aim of suggesting an appropriate action plan for job placement; (ii) evaluate the risk of long-term unemployment among the unemployed and those on the verge of unemployment; (iii) segment job seekers according to the level of attention deemed necessary to achieve their integration/reintegration into the labor market; (iv) offer guidance to the appropriate services, measures, and programs that are considered most suitable for meeting the requirements of the individual's profile; and (v) match job seekers with available vacancies (Blázquez, 2014).

- 1.5 International evidence shows that labor intermediation is a cost-effective intervention for matching workers and jobs (Card, Kluve, and Weber, 2010, 2015). In particular, it may help to reduce workers' job search time. Michaelides (2013) performs an experimental evaluation in a re-employment program in the U.S. state of Nevada and finds a 3.4-week reduction in the duration of unemployment, equal to a 22% reduction in time unemployed. Evidence in the region also shows that labor intermediation can help the unemployed population find better paying jobs, compared to the unemployed who use other search methods (Flores-Lima, 2010), and increase the probability of finding formal employment (Pignatti, 2016). Evidence also shows that earnings for the beneficiaries—compared to informal job search methods—could be higher for workers with worse prospects in the job market (Van den Berg and Van der Klaauw, 2006). In addition, the effectiveness of labor intermediation increases when it is more focused on companies (Behncke, et al., 2007).<sup>7</sup>
- 1.6 **Best practices.** The evidence from countries with developed labor intermediation systems indicates that the system must have three pillars to operate properly: (i) an established institutional framework that coordinates the actor involved in labor intermediation, particularly in public-private sector relations; (ii) a coordinated system for the delivery of services and their appropriate management; and (iii) a labor market information system that integrates new and/or existing data on supply, demand, matching, identification of gaps, and anticipation of demand (World Association of Public Employment Services (WAPES), IDB, and Organization for Economic Cooperation and Development (OECD), 2016).
- 1.7 First, to ensure that the implementation of labor intermediation policies achieves its objectives, adequate governance mechanisms must be utilized, in particular: (i) the balance struck between flexibility to adapt to the local reality and minimum standards for the type and quality of services (vertical governance); and (ii) the importance of coordinated work between public labor intermediation agencies and other interested agents, especially at the local level (horizontal governance) (IDB, WAPES, OECD, 2016). The international evidence does not suggest a single model of labor intermediation system governance, since the governance model and institutional coordination must be adapted to the specific characteristics of each country's model of government. A study of eight OECD countries shows that all have made efforts in recent years to improve their governance models, with varied arrangements that include different models of decentralization, different types of cooperation with the private sector, and different information management methods (Economix, 2016). In this respect, it is important for Chile to develop an appropriate institutional framework for its political and territorial organization, as well as a legal framework for public-private engagement. International evidence also indicates that establishing and maintaining good relations with employers is key to enabling public agencies of the labor intermediation system to maximize their potential contribution to improving the operation of the labor market. An innovative and high-quality supply of services is crucial for building relationships with employers, and the evidence indicates that the delivery of services targeting the needs of employers, the quality of public labor intermediation system staff, ample knowledge of the labor market, more use of information technologies, and improved communication strategies are essential for

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<sup>7</sup> See the [Economic Analysis](#) for more information on the dimensions of the impacts of these interventions.



increasing the coverage of public employment services among companies (Dietz, 2014; De Koning, et al., 2012; Weber 2012).

- 1.8 And second, once the governance model is developed, a framework for services delivery and management must also be developed. Evidence shows that there are advantages to coordinating the delivery of various services within the public agencies of the labor intermediation system, making it possible to intervene in a holistic way rather than focusing on a single aspect of employability (e.g., focusing only on matching a job seeker with a vacancy), particularly in the case of vulnerable groups. This means coordinating services such as counseling, training, provision of labor market information, intermediation, and payment of benefits, as well as providing additional assistance to vulnerable groups. The point of entry to this coordinated supply of services is provided by a profiling instrument that allows for early identification of needs and segmentation of specialized services, facilitating the allocation of services and resources. The need then arises to define a model for managing the available services that is flexible, decentralized, and adapted to local conditions and needs. The public agencies of the labor intermediation system have different channels available to them for interacting with clients and providing services, e.g. in person, via Internet, by telephone, and by mail. The strategy that defines the channel to be used to provide a particular service to a particular client is called multi-channel management (WAPES, IDB, and OECD, 2016). Three factors are key to the success of the multi-channel strategy: (i) integration and combination of all channels, offering the greatest potential for achieving the three objectives of the public labor intermediation system, i.e. effectiveness, efficiency, and satisfaction (not all service channels are equal nor are all suitable for all services); (ii) design that takes into account the nature of the services delivered and the population's needs and capabilities; and (iii) basing development on clearly defined objectives. This will guarantee that the expectations of the services and their clients will be met within budgetary constraints (Pieterse 2012, 2014).
- 1.9 The efficient management of the public agencies of the labor intermediation system also requires instilling a performance management culture within each agency. Given limited resources, the global trend shows increasing emphasis on demonstrating the impact of interventions as well as their cost-effectiveness. In addition, performance management may be a very useful tool for understanding how to achieve improved outcomes. The literature stresses three key factors for success in managing the performance of the public agencies of the labor intermediation system: (i) indicators that can be influenced by each agency; (ii) a system to ensure that the organization assimilates lessons learned on operational performance; and (iii) instruments, such as satisfaction surveys, that ensure that each agency understands the needs of its users (workers and employers) (Nunn, 2010, 2012, 2014). Lastly, the new labor market context (with demographic changes, economic globalization, and technological changes (WAPES, IDB and OECD, 2016)) requires an increasingly complex skill set for staff who provide public labor intermediation services, since they must be able to respond to the needs of specific groups (e.g., young people, women, individuals with a low level of schooling, and persons with disabilities), to connect with employers, and to connect with the providers of different types of services. In this context, the human resources planning and management of public agencies of the labor intermediation system has become a critical factor for their efficiency.

- 1.10 For the advanced countries, the evidence stresses two key elements for developing the required human resources: First, describe staff skills to serve as a reference for hiring and training activities; second, offer ongoing training to ensure that staff can improve their skills, update their knowledge, and have the tools they need to perform quality work (Sienkiewicz, 2013, 2012).
- 1.11 Third, the evidence from countries with developed public labor intermediation systems indicates that there must be a labor market information system that produces valid and systematic information on supply, demand, and matching, so that gaps can be identified and demands anticipated. The focus of labor market information has gradually changed from “planning”—or forecasting based on extrapolating from past trends—to anticipating or forecasting, which also considers future trends and is, in practice, captured in a labor market information system. International experience points to three key factors for making the transition from extrapolating from the past to anticipating future demands: (i) using a wider range of labor market information sources (e.g., administrative records of the public labor intermediation system, employer surveys, and follow-up surveys of training program participants); (ii) developing partnerships with other actors involved in the production of labor market information (e.g., government departments, the education sector, and research centers); and (iii) having a strategic approach for using information produced through the systematic analysis of the needs of various stakeholders at the national, regional, and local level (European Centre for the Development of Vocational Training, European Training Foundation, and ILO, 2015; International Organization for Migration, 2012; Department of Trade and Industry, 2010).
- 1.12 **Chile’s public labor intermediation system.** The Ministry of Labor and Social Welfare (MTPS) is responsible for analyzing, developing proposals on, and evaluating employment policies. Within the framework of these functions, it is also responsible for supervising the public agencies of the labor intermediation system. The National Training and Employment Service (SENCE), an agency of the MTPS, is the most significant provider of public labor intermediation services. From their inception, the public agencies of the labor intermediation system were founded on the principle of territorial decentralization. The Municipal Labor Information Offices were created within this framework and are basically intended to match local labor supply with demand. In 2015, Chile operated a wide territorial network of 326 Municipal Labor Information Offices, as well as the *Bolsa Nacional de Empleo* [National Job Exchange] at the national level. The package of labor intermediation services includes: (i) access to labor market information, through the MTPS’ Labor Information System and the SENCE’s network of labor observatories; (ii) employment counseling for job seekers (e.g., job readiness workshops)<sup>8</sup> and recruitment services for companies, allowing them to post their vacancies and match them with job seekers who meet the required profile; (iii) access to active labor market policies, including employment subsidies, programs to support the job search, programs supporting entrepreneurship, and training programs, executed through different training centers;<sup>9</sup> and (iv) administration of unemployment

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<sup>8</sup> The job readiness workshops conducted by the Municipal Labor Information Offices target job seekers and endeavor to transmit job search skills and techniques in an organized and planned manner.

<sup>9</sup> In Chile, the *Organismos Técnicos de Capacitación* [Technical Training Organizations], *Liceos Técnico Profesionales* [vocational skills high schools], and institutions of higher learning, such as universities, professional institutes, and technical training centers, may provide training. There are more than 3,000 registered training providers. To the extent that these centers execute training courses financed by the SENCE, they are particularly relevant actors for the labor intermediation system.

insurance, including social unemployment insurance,<sup>10</sup> through certification of effective job search actions. In addition to the public agencies of the labor intermediation system, Chile also has private intermediation agents and civil society organizations (Surlatina, 2017). In 2013, there were 156 companies authorized to provide temporary employment services (private employment agencies) and there was no ongoing oversight of private employment agencies that place workers (ILO, 2014).

- 1.13 The SENCE, through its Program to Strengthen Municipal Labor Information Offices, has been investing in actions to improve technical supervision of the Municipal Labor Information Offices by strengthening their management and developing instruments, processes, and actions to improve employment services and job placement for the job seekers who visit them. For example, the financial resources of the Program to Strengthen Municipal Labor Information Offices grew from Ch\$336 million (about US\$500,000) in 2009 when it was created to Ch\$4.1 billion (approximately US\$6 million) in 2015. This made it possible to increase the number of people placed by the Municipal Labor Information Offices—from 5,600 in 2009 to 79,960 in 2015.<sup>11</sup> The SENCE has also been striving to strengthen the Regional Training Councils,<sup>12</sup> particularly their ability to coordinate regional human capital initiatives of the public and private sectors. In addition, the MTPS is in the process of strengthening the National Job Exchange by implementing information technology improvements aimed at increasing its coverage. Both the MTPS and the SENCE have made significant strides in the generation and analysis of labor market information through the creation of a Labor Information System<sup>13</sup> and the implementation of a network of labor observatories,<sup>14</sup> respectively. Lastly, the country is moving ahead with the development of specialized services, training, and job placement arrangements for vulnerable groups, particularly women, young people, and people with disabilities. This has been especially true within the implementation framework of the *Más Capaz* [Skills Plus] program<sup>15</sup> and the Workforce Inclusion of People with Disabilities bill. Despite the advances made, Chile's public labor intermediation

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<sup>10</sup> Certification of an effective job search is a mandatory procedure for receiving benefits from the Solidarity-based Unemployment Fund.

<sup>11</sup> In the most recent two years of available data, an increase is observed in the rate of placement with long-term contracts: between 2014 and 2015, the rate of placement with indefinite contracts increased from 14% to 22%. Source: Program to Strengthen Municipal Labor Information Offices annual reports for 2014 and 2015.

<sup>12</sup> The Regional Training Councils are a tripartite regional body responsible for advising regional governments on the development and implementation of national training policy. The councils are presided over by the corresponding regional secretary of the MTPS and their members also include representatives of the Regional Secretaries of the Ministries of Finance, Economy, Development and Reconstruction, Education, the Vice President of the Production Development Corporation, and two members each of the labor and business sectors. The Regional Director of the SENCE is responsible for the technical secretariat of each council (<http://www.sii.cl/pagina/jurisprudencia/legislacion/complementaria/ley19518.htm>).

<sup>13</sup> Created in 2016 by the MTPS, the Labor Information System combines information on unemployment insurance with employment surveys, generating relevant information to support the decision-making of the different labor market participants and improve the design of labor policies.

<sup>14</sup> The network is coordinated by the National Labor Observatory and currently has six regional labor observatories in the regions of Coquimbo, Valparaíso, Bío Bío, La Araucanía, Antofagasta, and Maule. The regional labor observatories are financed through agreements between an *Organismo Técnico Intermedio de Capacitación* [intermediate technical training organization] (OTIC) and a university. Under these agreements, the OTICs are providing public funds from 5% of the *Franquicia Tributaria* [tax fund for training] to the operation of the labor observatories.

<sup>15</sup> See [Más Capaz](#) for more details.

system is still undeveloped and its coverage is very low, particularly among employers: 2% of formal companies list vacancies on the National Job Exchange (compared to 15% in Mexico and 16% in Brazil) and approximately 7% of the economically active population is registered with the National Job Exchange (compared to 9% in Mexico and 7% in Brazil).

- 1.14 **Challenges of the Chilean public labor intermediation system.** The delivery of public labor intermediation services in Chile includes challenges in the three pillars identified in international best practices (paragraphs 1.6 through 1.10). First, the institutional framework of the Chilean public labor intermediation system and its public-private engagement arrangement for promoting coordination on labor intermediation among the various key actors of the labor market are both clumsy. No governance model is in place, only a series of legal provisions governing the functions of the public labor intermediation system, such as its actors, their roles, and sources of financing. Consequently, the various functions are not based on a comprehensive approach to labor intermediation (Saez, 2016). Coordination and collaboration with these actors is still in the early stages. Although a steering committee was envisioned (to be chaired by the Undersecretary of Labor and empowered to review activities, order progress reports, and propose improvements in the execution of resources and distribution of benefits) one was never formed.<sup>16</sup> The Executive Labor Council was created in 2017 as a forum for tripartite social dialogue to discuss and develop labor policy proposals.<sup>17</sup> Currently, however, the MTPS and the SENCE have too few tools to effectively integrate employers into the public labor intermediation system, despite the key roles they play in that system in terms of creating jobs and hiring workers. In Chile, coverage among employers remains low. According to estimates, fewer than 2% of the country's companies list their vacancies with the public agencies of the labor intermediation system. This low coverage may be due to various factors. The system has a limited supply of services for employers, offers only 12 of the 26 services to employers identified in the WAPES-IDB survey, which is below both the global average (17 services) and the average of other OECD member countries (20 services). The current supply of services is not based on a diagnostic assessment of employers' future plans and challenges, thus limiting the ability to respond to their needs. In addition, the country lacks an engagement arrangement with the productive sector that would include: (i) strategies for initiating contact and maintaining a positive labor relationship; (ii) a human resources policy that provides for counselors specializing in service to companies; and (iii) performance management of services provided to employers.
- 1.15 A second challenge is that the public labor intermediation system lacks an arrangement to target services and standardize the supply and delivery of services, as well as the management of such services through a common system. The supply of services provided by the public agencies of the labor intermediation system is not based on a diagnostic assessment of user needs that would identify their level of vulnerability in the labor market and the intensity of support they require. With regard

<sup>16</sup> MTPS Decree 4 of 2009 establishes labor intermediation objectives, action lines, and procedures. According to the decree, in addition to the Undersecretary of Labor, the committee should include a representative of the Labor Intermediation Unit of the Office of the Undersecretary of Labor and a representative of the SENCE Employment Unit (<https://www.leychile.cl/Navegar?idNorma=1001429>).

<sup>17</sup> It consists of nine members, three from each sector: a representative from the MTPS, one from the Ministry of Finance, and one from the Ministry of Economy; three members from the business sector (one from the smaller companies); and three union members.

<http://www.chilevalora.cl/wp-content/uploads/2017/01/Francisco-Diaz-Subs.Trabajo..pdf>.

to processes, work flows have been established for addressing the needs of job seekers, but not of vulnerable groups. As a result, the latter have no clear idea of the services and programs the national labor intermediation system provides or how to access them, given the institutional complexities. Further compounding this situation is the high degree of variability in the supply and quality of public agencies of the labor intermediation system across regions (Asimov, 2016; Surlatina, 2017). In addition, the public labor intermediation system's management model has several limitations:

- (a) It does not provide strategic focus in defining the different channels (in person, via Internet, and by telephone) through which the public agencies of the labor intermediation system deliver services. All services are offered to all clients through all channels without considering the characteristics of the services or the population's needs and capabilities (Asimov, 2016). The lack of a multi-channel strategy limits the ability of the providers of public labor intermediation services to use the appropriate channels to meet the varying demands of their clients, which is key to increasing service effectiveness and efficiency services;
- (b) Its performance monitoring and management system is limited. Some national targets have not been adapted to regional or local contexts. Monitoring generally focuses on tracking disbursements, and performance indicators have only been developed for select services (no such indicators have been developed for services provided to companies). There is a limited set of input, output, process, and outcome indicators and no analytical indicators to assess the outcome of using different interventions or their costs. Likewise, there are no mechanisms for incorporating outcomes with the aim of promoting organizational learning and improved performance; and
- (c) It lacks a human resources management system. For instance, there is no adequate description of counselor functions, competencies, and skills; no arrangement for identifying training needs; no framework for providing ongoing career development training; and no quality control mechanisms for training. All this results in a high degree of variability in the supply and quality of services offered by the public agencies of the labor intermediation system across regions.

- 1.16 A third challenge is the lack of information on supply and demand in the labor market, including skill gaps. There is no labor market information system to consolidate the different bits of information from the various public agencies (e.g., Ministries of Education, Labor and Social Welfare, Finance, SENCE, statistics, and universities) in a coordinated way and that would generate timely and relevant information on frequency, level of geographic disaggregation, and other topics. A further consideration is the limited capacity to gather and disseminate labor market information in Chile. Neither the MTPS' labor information system nor the SENCE's labor observatories systematically capture data from surveys of employers, students, and graduates, quantitative forecasts of labor market demand/supply, or prospective studies. Furthermore, they lack the necessary equipment to process and analyze such data. Regular collaboration with the other labor market actors—employers, employment service providers, government agencies, professional associations, and labor organizations—is limited, especially for purposes of

anticipating the demand for labor and skills. The limitations associated with information on the labor market prevent the public labor information system from combining individual skills assessments with labor market information on future demand for occupations and skills to ensure that job seekers are referred to relevant educational and training centers. In addition, the inability to anticipate demands hampers the capacity of the public agencies of the labor intermediation system to offer preventive services to individuals employed in sectors at risk for restructuring. Having this information would help ensure a timely transition between different jobs, before they become redundant.

- 1.17 In brief, although Chile has been striving to improve its public labor intermediation system (paragraph 1.13), these efforts have fallen short. The advances noted are still in the early stages and incomplete; they were made with little coordination and without the benefit of a holistic and systemic vision. Consequently, a roadmap is needed to improve the public agencies of the labor intermediation system.
- 1.18 **Proposal.** To support the country in addressing these challenges and move toward the greater integration and better delivery of public labor intermediation services, this operation is structured as a two-tranche policy-based loan. The program, which will benefit job seekers and employers, aims to promote policy reforms to: (i) provide an institutional framework to develop the model of governance for the public agencies of the labor intermediation system and coordinate relationships among the various public agencies and between the public and private sectors. Considering the institutional diagnostic assessment of the sector (Saez, 2016), the aim of the program's first tranche is to propose guidelines for a National Labor Intermediation Policy<sup>18</sup> that identifies the objectives of public agencies that provide labor intermediation services, coordinates the sector's actors, and provides the MTPS with better tools to exercise its role (paragraph 1.1). For the program's second tranche, the MTPS will need to approve the National Labor Intermediation Policy and have a consistent work plan in place. In terms of engagement with the private sector, not only will public-private collaboration agreements be reached (first tranche) but, for the second tranche, this issue will need to be included on the agenda of key actors, such as the Executive Labor Council; (ii) develop a service delivery arrangement based on a diagnostic assessment of user needs that offers differentiated service channels, models of performance-based management and human resources management that ensure the quality of services, as well as the instruments necessary for the ongoing improvement of these services, while at the same time promoting the use of public agencies of the labor intermediation system by means of a dissemination campaign tailored to each audience.<sup>19</sup> In the initial stage, work will move forward on developing guidelines and identifying best practices (primarily via existing initiatives), thereby laying the groundwork for a second stage to leverage these initiatives and implement them at the national level; and (iii) proceed with the design of a comprehensive labor market information system to help improve the type and quality of the available information on the labor market; this requires a detailed proposal to assess the current situation, paving the way for a refined diagnostic

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<sup>18</sup> The basic guidelines of the National Labor Intermediation Policy are likely to include, *inter alia*, the labor intermediation relationship between the MTPS and the public sector (especially the SENCE and the Municipal Labor Information Offices) and between the public and private sectors (private intermediators).

<sup>19</sup> The program considers the design and initial implementation of a dissemination plan on the supply of labor intermediation services, which may include, *inter alia*, use of the National Job Exchange by staff of the Municipal Labor Information Offices.

assessment to identify the strengths and weaknesses of Chile's labor market information system.

- 1.19 **Lessons learned and relationship to other Bank operations in the country.** The operation's design is based on the results of active collaboration in the sector between the Bank and Chile. Noteworthy in this regard are three points: (i) the progress made and experience amassed in the execution of programs related to the objectives of the proposed operation; (ii) the sharing of experiences and good practices on labor intermediation issues; and (iii) the studies undertaken to support the operation's design and analyze key factors in the success of labor intermediation policy in the country. On the first point, the Program to Support SENCE's Effectiveness (loan 2793/OC-CH) is financing the creation of the labor observatories. The aim of the current program's Component 4 is to proceed with integrating the labor observatories with the MTPS' Labor Information System (paragraph 1.12) under a single labor market information system. Moreover, in the context of program 2793/OC-CH, a pilot labor intermediation project was launched in the provinces of Valparaíso, Marga Marga, and Ñuble (in the regions of Valparaíso and Bío Bío), with the aim of adapting the service delivery and management frameworks of public labor intermediation services to international standards. Specifically, the pilot's aim is to design a service delivery model by developing a multi-channel strategy, a human resources management model, and a model to monitor management of service delivery and performance of employment offices. The aim of the program's Component 3 will be to implement the results of this pilot project at the national level. Lastly, the program promotes the implementation of tools to support oversight activities regarding the management, follow-up, and monitoring of SENCE training and employment programs. The headway made in this regard is input for the model to monitor management of service delivery and performance monitoring described in the program's Component 3. The Program to Improve Technical Vocational Education (loan 3539/OC-CH) seeks to strengthen linkages among labor institutions, educational institutes, and the productive sector. The aim is to incorporate these engagement efforts into the public-private coordination arrangements described in the program's Component 2. Progress has also been made in the design of an information system encompassing the supply of training, labor market behavior, vocational guidance, and follow-up of graduates. This system supplements the country's initiatives aimed at generating labor market information and will be considered part of the diagnostic assessment described in the program's Component 4. On the second point, through the Technical Support Network for Employment Services in Latin America and the Caribbean (SEALC Network), activities involving the sharing of experiences and good practices were carried out among the public employment services of Sweden, France, and the SENCE. In addition, discussion workshops were conducted in June and December 2015 with relevant labor intermediation actors in Chile and international experts to identify the main challenges and analyze possible solutions based on international good practices. Lastly, on the third point, within the context of technical cooperation operation ATN/OC-12923-CH, various studies were conducted, including: (i) a comparative analysis of governance models and institutional arrangements for successful public employment services at the international level; (ii) studies on the legal and institutional framework of the Chilean labor intermediation system; (iii) a study supporting the design of a multi-channel strategy; and (iv) an analysis of the costs and benefits associated with the implementation of a labor intermediation system in Chile. With financing from

technical cooperation operation ATN/OC-15835-CH, progress is being made on the design of a job seekers' profiling tool for job seekers and companies. The technical cooperation operation supporting operation CH-T1189 will support actions in the program's Components 2 and 3, as well as financing for the evaluation of outcomes.

- 1.20 This sector work, especially the comparative international experience, has highlighted the need to incorporate a series of lessons learned from Bank operations, in accordance with the IDB's Labor Sector Framework Document (document GN-2741-7). At the technical level, this document emphasizes, *inter alia*, the need to introduce profiling mechanisms and set appropriate performance targets. These considerations are included in the service delivery model proposed in the program's Component 3. That model includes the design and implementation of a user profile diagnostic instrument to adapt services to the level of vulnerability and needs of job seekers and companies. The proposed model also includes an arrangement to monitor management of labor intermediation services delivery and performance monitoring that will facilitate the strengthening and coordination of existing systems and design and monitor the performance targets of the public agencies of the labor intermediation system. The aforementioned sector framework document also recommends building public-private partnerships for access to formal employment and employability. This consideration is incorporated into the operation's Component 2, through the public-private engagement framework at the regional or national level to promote labor intermediation cooperation.
- 1.21 **Strategic alignment of the program.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and strategically aligned with the development challenges of: (i) social inclusion and equality, by promoting equal access to better job opportunities, since more than 40% of its beneficiaries are either unemployed or excluded from the labor market; and (ii) productivity and innovation, by improving the match between the demand for workers and the supply of job seekers through improvements in training and labor intermediation. It is also aligned with the crosscutting themes of: (i) gender and diversity, since it aims to improve the employment situation of women and its actions include developing a profiling tool to identify barriers hindering their access to the labor market; and (ii) institutional capacity and the rule of law, since it improves the delivery of labor intermediation services to job seekers. The program will also contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6) through the indicator "Government agencies benefiting from projects that strengthen technological and management instruments for improving public service delivery," by strengthening the entities linked to labor intermediation in the country with the development of a job seekers' profiling tool and improvements in the delivery of labor intermediation services. This operation is framed by the IDB Country Strategy with Chile 2014-2018 (document GN-2785) with regard to its strategic objective 5.1, "Improve labor participation and employability among the groups that are most vulnerable in terms of employment," and the 2017 Operational Program Report (document GN-2884). It is also consistent with the Labor Sector Framework Document (document GN-2741-7) in terms of sector priority on access to formal jobs (see page 41, Section V, Subheading A, Dimension of success 1), and is aligned with the Strategy on Social Policy for Equity and Productivity. Revised version (document GN-2588-4).



**B. Objectives, components, and cost**

- 1.22 **Objective.** The program's objective is to improve the integration and delivery of labor intermediation services for job seekers and companies in Chile. To that end, it will support policy actions aimed at achieving the following specific objectives: (i) reformulate the governance model of the public agencies of the labor intermediation system; (ii) match the supply and delivery of labor intermediation services provided by the public agencies of the labor intermediation system and restructure the management model for these services; and (iii) move forward with the expansion and coordination of a labor market information system and the generation of sector knowledge. Accordingly, the program is structured into four components:
- 1.23 **Component 1. Macroeconomic stability.** The objective of this component is to ensure a macroeconomic context consistent with the program's objectives as established in the policy matrix (Annex II).
- 1.24 **Component 2. Governance model and public-private institutional coordination.** This component supports policy commitments that help improve the overall integration and coordination of the public agencies of the labor intermediation system. To establish an institutional framework that includes a governance model, a National Labor Intermediation Policy will be developed and approved, which is an essential part of this program. The National Labor Intermediation Policy will facilitate the integration and coordination of public and private efforts to improve the delivery and management of the public agencies of the labor intermediation system. Furthermore, the Steering Committee on Labor Intermediation will be created and activated; this will help strengthen the supervisory and policy design role of the MTPS and establish an entity to monitor progress made in labor intermediation. One of the committee's first steps is expected to be the approval of a work plan with short- and medium-term measures. Coordination mechanisms will also be established between the public and private sectors (both private intermediaries and companies that use public labor intermediation services). The policy actions are spelled out in the policy matrix (Annex II) and summarized as follows: for the first tranche: (i) development of technical guidelines for designing a National Labor Intermediation Policy, to include, at minimum, the objectives, target population, and governance model of public agencies that provide labor intermediation services; (ii) creation of the Steering Committee on Labor Intermediation, including its composition and responsibilities; and (iii) development of public-private engagement frameworks at the regional or national level to promote cooperation on labor intermediation, with a view to facilitating the workforce integration of job seekers, to include collaboration arrangements between public and private agencies offering labor intermediation services, as well as between public agencies and employers. The policy actions of the second tranche are: (i) approval of the National Labor Intermediation Policy; (ii) approval of the work plan of the Steering Committee on Labor Intermediation, to include proposals for short- and/or medium-term measures to improve operations in the delivery and management of labor intermediation services; and (iii) preparation of an analysis of the implementation of the public-private engagement framework in labor intermediation.
- 1.25 The commitments under the first tranche will be confirmed when: (i) the SENCE has issued a memorandum to the Office of the Undersecretary of Labor, proposing technical guidelines for a National Labor Intermediation Policy; (ii) the MTPS has issued an administrative order amending its Decree 4/2009 and creating the

Steering Committee on Labor Intermediation; (iii) a collaboration agreement has been signed between SENCE and at least one private labor intermediation agency promoting collaboration and information-sharing on labor intermediation, with a view to facilitating the placement of graduates of SENCE employability programs in jobs; and (iv) memorandums have been signed with at least three Regional Training Councils documenting recommendations for structuring future public-private engagement frameworks at the regional level to promote cooperation on labor intermediation matters. The commitments under the second tranche will be confirmed when: (i) the MTPS has issued an administrative order approving the National Labor Intermediation Policy; (ii) the Steering Committee on Labor Intermediation has issued a memorandum documenting the approval of its work plan; and (iii) the Executive Labor Council has issued a memorandum containing its analysis of the implementation of public-private engagement frameworks on labor intermediation matters.

- 1.26 **Component 3. Service delivery and management models for public labor intermediation services.** This component supports policy commitments that help improve the service delivery and management models for these services. Its aim is to prepare an intervention that is relevant and cost-effective, employing a user profile diagnostic instrument to identify needs and segment services, thus facilitating the allocation of services and resources. Through the implementation of the pilot in the provinces of Valparaíso, Marga Marga, and Ñubles, a multi-channel management model will be developed, to include performance and human resources management arrangements for public labor intermediation services, with a common institutional framework and flexibility to adapt to the local context. Differentiated approaches will also be developed for vulnerable groups such as women, young people, and people with disabilities. The program will lay the foundation for scaling up the pilot at the national level. The success of these reforms depends in part on the extent to which the beneficiaries use the system. To that end, support will be provided to develop a dissemination plan for the new public labor intermediation services.
- 1.27 The policy actions are spelled out in the policy matrix (Annex II) and summarized as follows: for the first tranche: (i) approval of a work plan to develop the profile of job seekers, identify their degree of vulnerability in the labor market and the intensity of support they require; (ii) design of a labor intermediation services pilot engagement framework in three provinces, to include: (a) a multi-channel strategy that coordinates channels (in person, Internet, and others), services, and clients, promoting effectiveness, efficiency, and user satisfaction; (b) a human resources management model for staff providing labor intermediation services, to include a description of functions, competencies, and skills; and (c) a model for monitoring the management of labor intermediation services delivery and performance management, to include a set of indicators and their targets; (iii) development of special arrangements for the workforce integration of women, young people, and people with disabilities, based on a diagnostic assessment of supply and demand barriers that includes the appropriate instruments for overcoming the barriers identified;<sup>20</sup> and (iv) approval of the addendum to the National Job Exchange

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<sup>20</sup> This will be achieved, in part, with a bill to promote the employment of people with disabilities, establishing a workforce inclusion system for people with disabilities. It will also entail amending MTPS Decree 101/2014, creating and establishing the regulatory framework for the *Más Capaz* program.

management contract, requiring a report on the implementation of its dissemination plan.

- 1.28 The policy actions for the second tranche are: (i) approval of guidelines for structuring a job seekers' profiling tool based on international best practices; (ii) implementation of a labor intermediation services pilot in three provinces to include: (a) a multi-channel strategy; (b) a human resources management model; and (c) a model for monitoring the management of labor intermediation services delivery and performance management; (iii) proclamation and publication of a law to promote promoting the workforce integration of people with disabilities; and (iv) initial implementation of the dissemination plan on the supply of labor intermediation services.
- 1.29 The following will be required to verify the commitments under the first tranche: (i) the Office of the Undersecretary Labor has issued an administrative order approving the work plan to develop the job seekers' profiling tool; (ii) the SENCE has issued a memorandum to the Office of the Undersecretary of Labor, containing the design of pilot project in three provinces, to include a multi-channel strategy, a human resources management model, and a model for monitoring the management of labor intermediation services delivery and performance management; (iii) the President of the Republic has presented to the National Congress a replacement text of the "bill promoting the workforce inclusion of people with disabilities and amending Law 20422, establishing a legal reserve of jobs for people with disabilities"; (iv) an MTPS decree has been approved, amending its Decree 101/2014 to reformulate special arrangements for the workforce integration of women, young people, and people with disabilities; and (v) the MTPS has issued an administrative order approving the addendum to the National Job Exchange management contract. The following will be required to verify the commitments under the second tranche: (i) the Undersecretary of Labor has issued an administrative order approving a technical report containing guidelines for structuring a job seekers' profiling tool that incorporates international best practices; (ii) the SENCE has issued a memorandum to the Office of the Undersecretary of Labor containing the implementation report of the labor intermediation services pilot project, detailing the progress made in the multi-channel strategy, the human resources management model, and the model for monitoring the management of labor intermediation services delivery and performance management; (iii) the law promoting the workforce inclusion of people with disabilities has been proclaimed and published; and (iv) the SENCE has issued a memorandum to the country's municipios, informing them of the preliminary implementation of the dissemination plan on the supply of labor intermediation services.
- 1.30 **Component 4. Labor market information system and generation of labor intermediation knowledge.** This component supports policy commitments that help improve the type and quality of available labor market information. Its aim is to coordinate and build on the advances already made in the country, such as the MTPS' Labor Information System and the SENCE's labor observatories, thereby removing barriers to accessing information on both labor supply and demand, and, in combination with the aforementioned actions, help improve the match between supply and demand.
- 1.31 The policy actions are spelled out in the policy matrix (Annex II) and summarized as follows: for the first tranche: approval of the work plan to develop a labor market information system to integrate the MTPS' Labor Information System and the

SENCE's labor observatories. The policy action for the second tranche is the presentation of a status report on the current labor market information systems: the MTPS' Labor Information System and the SENCE's labor observatories.

- 1.32 Verification of the commitment for the first tranche will be complete when the SENCE has approved the work plan on the labor market information system. The commitment for the second tranche requires the Committee of Unemployment Insurance Users to issue a memorandum containing a technical report on the status of the various public agencies involved in managing the labor market information system.

### **C. Key results indicators**

- 1.33 The [Results Matrix](#) was developed to measure the impacts and outcomes of the policies considered in the program. These outcomes, in turn, will be monitored and evaluated by mutual agreement with the borrower. The main impact expected is an improvement in matching the supply and demand for work, measured based on the number of weeks spent searching for employment (an average reduction of 15% is anticipated). This outcome will be measured within the 12 months following the date of the final disbursement. Although companies are program beneficiaries, no evidence has been found that would make it possible to measure the impact on companies of better public labor intermediation services. For this reason, no indicator is included to measure this benefit (see [Monitoring and Evaluation Plan](#)). The main outcomes expected are: (i) a strengthened institutional framework for labor intermediation; (ii) strengthened linkages between public agencies involved in labor intermediation and the private sector; (iii) model developed for the delivery of labor intermediation services; and (iv) an improved and comprehensive labor market information system, the indicators for which are detailed in the [Results Matrix](#).
- 1.34 **Cost-benefit analysis.** A 10-year evaluation horizon and 12% social discount rate are assumed. To estimate costs, all activities planned for the program's first year of execution are quantified. During the years of program operations, the operating costs of the National Job Exchange, the MTPS labor information system, and the SENCE's labor observatories are considered. The program's social benefits were analyzed, which included consideration of the program's expected impact (paragraph 1.26). The base case scenario was considered to be the program situation wherein the benefits were due to a reduction in job search time (weeks), depending on the age group. Based on international evidence, a 15% reduction in job search time is assumed. The ex ante evaluation of program benefits shows that the net present value under the base case scenario is positive (US\$15 million), making the project viable. The social internal rate of return is 25%, which is higher than the discount rate. A sensitivity analysis is then performed considering not only pessimistic (10%) and optimistic (20%) scenarios for this indicator, but also additional benefits for workers (real salary increases – expanded scenario 1) and for companies (increased labor productivity measured as sales per worker – expanded scenario 2). In all cases, the benefits were quantified for the most vulnerable population in terms of human capital, i.e. those who have completed some or all their secondary education, excluding older adults. It is also estimated that labor intermediation services provided by public agencies will have an impact on 20% of this target population. Only in the base scenario—with a 10% reduction in job search time—would the net present value be negative. In all other scenarios considered, the project is viable (see the [Economic Analysis](#)).

## **II. FINANCIAL STRUCTURE AND MAIN RISKS**

### **A. Financing instruments**

- 2.1 This operation is structured as a multi-tranche policy-based loan. This modality, an instrument for supporting sectoral and institutional reforms, was selected because: (i) there is consensus regarding the reforms needed in the short and medium term, as well as the time frames for their implementation; (ii) it is an effective tool for addressing policy development challenges; and (iii) it enables the Bank to contribute additionality in terms of implementing the policy reforms that the MTPS and SENCE have been introducing on a piecemeal basis since the previous administration. The operation's structure follows and is consistent with the guidelines established in document CS-3633-1, "Policy-based Loans: Guidelines for Preparation and Implementation." The amount of the loan is for up to US\$100 million, to be provided from the Ordinary Capital resources, and will be disbursed in two equal and consecutive tranches of up to US\$50 million over a period of up to two years.<sup>21</sup>
- 2.2 **Dimensioning of the operation.** In accordance with paragraph 3.27(b) of document CS-3633-1, the dimensions of the operation were established based on the country's fiscal resource needs and the amount that the Government of Chile considers should be financed by multilateral lenders. The gross financing needs of the Chilean government in 2017 amount to US\$10.500 billion. This operation represents 0.95% of these needs.<sup>22</sup>

### **B. Environmental and social risks**

- 2.3 As a policy-based loan, this operation does not anticipate activities that could have negative environmental or social impact. Consequently, no ex ante impact classification is required (Directive B.13) under the Environment and Safeguards Compliance Policy (Operational Policy OP-703).

### **C. Fiduciary risks**

- 2.4 The proposed financial instrument provides unrestricted funds for budgetary support once a responsible fiscal framework is in place. No significant fiduciary risk is therefore considered to exist since the executing agency has the necessary financial management instruments and control systems.

### **D. Other program risks**

- 2.5 The political context through to the end of this operation's disbursement period is seen as favorable to this program. There is consensus among the involved sectors regarding the need to reform the public labor intermediation system. However, two medium level risks are identified. With respect to management and governance, weakness in the coordination mechanisms of the MTPS, SENCE, and other central and regional level services could delay the execution of certain program activities. To mitigate this risk, the formation of a technical committee is proposed to monitor the program. The technical monitoring committee will be comprised of MTPS and SENCE officials, who will meet on at least a monthly basis and will review progress made and pending matters, in coordination with the IDB and, as necessary, with officials of the regional directorates and staff of the Municipal Labor Information

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<sup>21</sup> Based on estimates by Chilean authorities, disbursements could be made in September 2017 and January 2018.

<sup>22</sup> Source: 2017 Public Sector Budget Act (Article 3).

Offices involved in the pilots. It will analyze, in a coordinated way, the progress and results associated with the various policy commitments and provide appropriate monitoring of these commitments. Moreover, in the event that the second and final disbursement is made after 11 March 2018 (date the new government takes office), a medium risk is anticipated in terms of a change in priorities. To mitigate this risk, the new authorities will be given assurances that the Bank's support for these issues has continued across administrations of different political parties. Also in this regard, efforts will be made to encourage diversity in terms of political viewpoints among the participating municipios, with the aim of fostering support groups,<sup>23</sup> and to involve the private sector and civil society in at least two activities: (i) seek input from the Committee of Unemployment Insurance Users, a body with tripartite representation, regarding its views on the National Labor Intermediation Policy; and (ii) hold a seminar with representatives from both sectors to present the progress made on strengthening Chile's labor intermediation system.

- 2.6 **Analysis of the proposed interventions' scalability and sustainability.** According to the government's plan, the authorities are committed to these reforms. Once the new model of governance and public-private engagement arrangements are established, the scalability of the policy actions will gradually take shape. Once the pilot in the three provinces is completed (paragraphs 1.18 and 1.24), the MTPS plans to scale up the intervention at the national level. The MTPS also expects to continue consolidating the integration of the labor market information system (paragraphs 1.18 and 1.25). Furthermore, private sector and civil society participation (paragraphs 1.24 and 2.5) is expected to facilitate the sustainability of the reforms in the event of a change in government.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower is the Republic of Chile, acting through the Office of the Undersecretary of Labor, and the executing agency is the MTPS. The executing agency will act in coordination with the Ministry of Finance through its Budget Directorate (DIPRES). The MTPS is the institution responsible for the sector with jurisdiction over the program. Acting through its Office of the Undersecretary of Labor, it will be responsible for the technical leadership associated with fulfilling policy commitments through its means of verification.
- 3.2 **Entities of coordination and linkage between the executing agency and other participants.** Both the program's technical committee and the startup of the Steering Committee on Labor Intermediation (paragraph 1.14) will facilitate the coordination of actions between the MTPS and the SENCE. The nine-member Executive Labor Council includes a representative of the MTPS. The regional training councils are chaired by the regional secretary of the MTPS, whereas the SENCE's regional director is responsible for the technical secretariat. Together, they make up a regional coordination entity and serve as a channel for dialogue with the national level. As part of the program to Strengthen Municipal Labor Information Offices, the SENCE maintains a close relationship with these offices and conducts workshops and seminars, some with support from program 2793/OC-CH.

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<sup>23</sup> Refers to the municipios that are part of the pilot in the provinces of Valparaíso, Marga Marga, and Ñuble. See [Results Matrix](#) for more details.

- 3.3 The executing agency will be responsible for: (i) providing evidence that policy commitments have been fulfilled and any other evidence related to the program that the IDB may need to approve the respective disbursement; (ii) supporting the actions required for continuity in implementing the program, especially with regard to prioritization and coordination with the Ministry of Finance for the provision of fiscal resources for its execution; (iii) coordinating with SENCE and the other agencies involved in the operation that are responsible for the adoption of measures and technical execution of the activities described in Components 2, 3, and 4; (iv) encouraging the various agencies of the labor intermediation system to incorporate the guidelines of the National Labor Intermediation Policy and ensure that the agreements with private companies adopt the public-private engagement framework; (v) following up on and promoting actions to achieve the policy objectives defined in the program; (vi) preparing reports and providing evidence (means of verification) of the fulfillment of conditions for disbursement of Bank financing for the operation, within the established and agreed upon time frames; and (vii) compiling information on performance indicators to be used in evaluating the program's outcomes.
- 3.4 **Special contractual conditions precedent to disbursement of the loan proceeds.** Two disbursements are planned after the loan contract has been signed and taken effect, and upon verification of the fulfillment of the special and general conditions precedent to all disbursements and for disbursements in each tranche. **Disbursement of each of the loan's two tranches is subject to fulfillment of the policy reform measures described in the program components, the policy matrix (see Annex II), and other conditions established in the loan contract.** Such fulfillment will be confirmed through the instruments identified in the [Matrix of Means of Verification](#) and the [Monitoring and Evaluation Plan](#).
- B. Summary of results monitoring arrangements**
- 3.5 The instruments that make up the Monitoring Plan are: (i) the policy matrix (Annex II); (ii) the [Matrix of Means of Verification for Tranche I and II](#); and the (iii) [Results Matrix](#). These provide the key parameters for the supervision and evaluation of the program's outcomes. The Bank will monitor their execution from the Country Office and the IDB's Labor Markets Division. The MTPS, acting through the Office of the Undersecretary of Labor, will be responsible for monitoring and following up the operation's outcomes, in coordination with the Bank. Given that the program includes actions by the MTPS and the SENCE, a technical committee will be formed with representatives of each. This committee will meet at least once a month to review progress and pending matters, and to identify and seek solutions to bottlenecks (paragraph 2.5). The MTPS will provide the Bank all the information necessary for measuring fulfillment of the program tranches and will provide timely information on progress made to that end.
- 3.6 As indicated in the [Monitoring and Evaluation Plan](#), the program's outcomes will be measured on the basis of administrative data, management reports, studies, and data from employment and household surveys. In addition to the instruments described in paragraph 3.5, an evaluation of outcomes will be performed. This evaluation will be based on comparing impact indicators and outcomes before and after the program.
- 3.7 The project completion report will be prepared within 12 months following the date of the final disbursement of the operation. The borrower, through the executing

agency, will be responsible for compiling and processing the data needed to evaluate the operation.

#### **IV. POLICY LETTER**

- 4.1 The IDB reached agreement with the Government of Chile on the policy commitments that will be supported under this program. They are reflected in the Policy Matrix (Annex II), Matrix of Means of Verification, and Results Matrix. These commitments are aligned with the [Policy Letter](#) submitted by the Government of Chile confirming its commitment to the program.



Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2785	Improve labor participation and employability among the groups that are most vulnerable in terms of employment.
Country Program Results Matrix	GN-2884	The intervention is included in the 2017 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability	Evaluable	
3. Evidence-based Assessment & Solution	9.0	
3.1 Program Diagnosis	2.6	
3.2 Proposed Interventions or Solutions	3.6	
3.3 Results Matrix Quality	2.8	
4. Ex ante Economic Analysis	10.0	
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0	
4.2 Identified and Quantified Benefits	1.5	
4.3 Identified and Quantified Costs	1.5	
4.4 Reasonable Assumptions	1.5	
4.5 Sensitivity Analysis	1.5	
5. Monitoring and Evaluation	5.1	
5.1 Monitoring Mechanisms	1.5	
5.2 Evaluation Plan	3.6	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B.13	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit.  Procurement: nformation System, parison, ontracting Individual Consultant, ational Public Bidding.
Non-Fiduciary	Yes	Strategic Planning National System, Monitoring and Evaluation National System, Statistics National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Gender Equality		
Labor		
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	The organization of a workshop on good practices in public employment services, technical assistance to SENCE's team in charge of the design and implementation of the intermediation pilot project, technical visit and support from other public employment services.
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		

Note: (\*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The Strengthening the Labor Intermediation System Program in Chile (CH-L1135) is one of the two programmatic loans designed to support policy reform in the country. The program aims to improve the integration and provision of labor intermediation services (SIL) for job seekers and companies in Chile. To this end, the program will support policy actions aimed at achieving the following specific objectives: (i) reformulating the SIL governance model; (ii) adjusting the supply and provision of SIL services and restructuring its management model; and (iii) expanding and articulating the labor market information system (SIML) and generating knowledge in the sector.

In the diagnosis, the main problem is the performance of the labor market characterized by low labor market participation and occupation rates, and high rates of unemployment and informality. This is especially true for the most vulnerable groups such as women, youth and people with disabilities. The diagnosis shows that the country experiences: (i) skills shortages and incompatibility with the needs of the labor market, (ii) limited ability of job seekers to obtain information about quality work opportunities, and (iii) insufficient generation and use of labor market information. The vertical logic of the program is clear and activities and outputs are well articulated with the proposed interventions and expected results.

The project has adequate monitoring mechanisms. However, the indicators proposed to measure impacts and results do not allow conducting an impact evaluation or a strong attribution analysis of the program. The program evaluation will consist only of a before and after comparison.

The economic analysis suggests net positive benefits that come mainly from the reductions of time in the job search. The sensitivity analysis shows a positive return, except for one of its scenarios. In addition, the analysis considers other benefits that come from improvements in wages and the productivity of companies. The risk profile of the program is medium.

**POLICY MATRIX**

<b>Policy objective</b>	<b>Policy commitments I</b>	<b>Policy commitments II</b>
<b>Component 1. Macroeconomic stability</b>		
1. Ensure that the macroeconomic environment remains conducive to fiscal sustainability.	1.1 Ensure that the macroeconomic context is consistent with the program's objectives.	1.2 Ensure that the macroeconomic context is consistent with the program's objectives.
<b>Component 2. Governance model and public-private institutional coordination</b>		
2. Strengthen the institutional framework of labor intermediation.	2.1 Memorandum to the Undersecretary of Labor, issued by the SENCE, proposing technical guidelines for a National Labor Intermediation Policy, containing, at minimum, the objectives, target population, and governance model of the public agencies that provide labor intermediation services.	2.2 Administrative order issued by the MTPS approving the National Labor Intermediation Policy.
	2.3 Administrative order issued by the MTPS, amending its Decree 4/2009 and creating the Steering Committee on Labor Intermediation, to include its composition and responsibilities.	2.4 Memorandum issued by the Steering Committee on Labor Intermediation, confirming the approval of its work plan.
3. Strengthened linkages between public agencies involved in labor intermediation and the private sector.	3.1 Public-private engagement frameworks developed at the regional or national level to promote cooperation on labor intermediation, with a view to the workforce integration of job seekers. This is to be accomplished through a collaboration agreement signed between the SENCE and a private agency that provides labor intermediation services, as well as the issuance of memorandums by at least three Regional Training Councils documenting recommendations for structuring future public-private engagement frameworks at the regional level.	3.2 Memorandum issued by the Executive Labor Council confirming receipt of an analysis, by the Office of the Undersecretary of Labor, of the implementation of the public-private engagement frameworks on labor intermediation matters described in paragraph 3.1.

Policy objective	Policy commitments I	Policy commitments II
<b>Component 3. Service delivery and management models for public labor intermediation services</b>		
4. Develop a model for the delivery of labor intermediation services.	4.1 Administrative order issued by the Office of the Undersecretary of Labor approving the work plan to develop a job seekers' profiling tool, identify their degree of vulnerability in the labor market and the intensity of support they require.	4.2 Administrative order issued by the Office of the Undersecretary of Labor approving the technical report containing guidelines for structuring a job seekers' profiling tool that incorporates international best practices.
	4.3 Memorandum to the Undersecretary of Labor, issued by the SENCE, containing the design of a pilot project in three provinces to include: (i) a multi-channel strategy that coordinates channels (in person, Internet, and others), services, and clients, promoting effectiveness, efficiency, and user satisfaction; (ii) a human resources management model for staff providing labor intermediation services, to include a description of their functions, competencies, and skills; and (iii) model for monitoring the management of labor intermediation services delivery and performance management, to include a set of indicators and their targets.	4.4 Memorandum to the Office of the Undersecretary of Labor, issued by the SENCE, forwarding the implementation report on the labor intermediation services pilot project described in paragraph 4.3(i), (ii), and (ii).
	4.5 Development of special arrangements for the workforce integration of women, young people, and people with disabilities, based on a diagnostic assessment of supply and demand barriers, and that include the appropriate instruments for overcoming the barriers identified through: (i) presentation to the National Congress, by the President of the Republic, of a replacement text for the "bill promoting the workforce inclusion of people with disabilities and amending Law 20422, establishing a legal reserve of jobs for people with disabilities"; and (ii) issuance of a decree by the MTPS amending its Decree 101/2014.	4.6 Proclamation and publication of a law promoting the integration of people with disabilities into the workforce.
5. Strengthen the dissemination of labor intermediation services.	5.1 Decree issued by the MTPS approving the addendum to the National Job Exchange management contract, the deliverables of which include a report on the implementation of that agency's dissemination plan.	5.2 Memorandum to the country's municipios, issued by the SENCE, informing them of the preliminary implementation of the dissemination plan on the supply of labor intermediation services.

Policy objective	Policy commitments I	Policy commitments II
<b>Component 4. Labor market information system and generation of labor intermediation knowledge</b>		
6. Structure a comprehensive labor market information system.	6.1 SENCE approval of a work plan to develop a labor market information system to integrate the MTPS' Labor Information System, created by Law 19728 and available on its website ( <a href="http://www.sil.mintrab.gob.cl">www.sil.mintrab.gob.cl</a> ), and the SENCE's labor observatories (available on website: <a href="http://www.observatorionacional.cl">www.observatorionacional.cl</a> ).	6.2 Memorandum issued by the Committee of Unemployment Insurance Users confirming that the Office of the Undersecretary of Labor submitted a status report on the current labor information systems (i.e. the SENCE's labor observatories and the MTPS' Labor Information System).