

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

REPUBLIC OF PARAGUAY

PROGRAM TO SUPPORT JOB PLACEMENT

(PR-L1066)

LOAN PROPOSAL

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REQUIRED	
1.	Annual work plan (AWP) for the first 18 months of execution 36392888
2.	Monitoring and evaluation arrangements 36391714
3.	Procurement plan 36392638
OPTIONAL	
1.	Bank Country Strategy with the Republic of Paraguay http://www.iadb.org/en/countries/paraguay/country-strategy.1040.html
2.	Index of sector activities and work executed and proposed 36261363
3.	Institutional capacity assessment of the Ministry of Justice and Labor (DGE) 36396356
4.	DGE institutional strengthening plan 36396360
5.	Program Operating Regulations – in preparation
6.	2011 Country Program Document, see document GN-2617 (2011 Operational Program Report, where the Paraguay CPD is found as a link to Annex II or 35859054 , paragraph 2.12)
7.	Ministerial Resolution creating the SENADE-DGE one-stop window 36380638
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9.	Agreement between the National Employment Service (SENADE) and the National Vocational Education and Training System (SINAFOCAL) 36391782
10.	SINAFOCAL response to the questionnaire sent to national job training institutes 36391677
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12.	Report on DGE operations and expansion plans 36391687
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16.	Decree 7275/2011 Creating the General Employment Directorate (DGE) 36446128
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ABBREVIATIONS

AWP	Annual work plan
DGE	Dirección General de Empleo [General Employment Directorate]
MJT	Ministry of Justice and Labor
OC	Ordinary Capital
OECD	Organization for Economic Cooperation and Development
PCU	Program coordinating unit
SENADE	Servicio Nacional de Empleo [National Employment Service]
SERCE	Second Comparative and Explanatory Regional Study
SINAFOCAL	Sistema Nacional de Formación y Capacitación Laboral [National Vocational Education and Training System]
SNPP	Servicio Nacional de Promoción Profesional [National Service for Professional Advancement]
UIP	Unión Industrial Paraguaya [Paraguayan Industrial Union]
UOC	Unidad Operativa de Contrataciones [Contract Operating Unit]
UNESCO	United Nations Educational, Scientific and Cultural Organization
VMTSS	Office of the Deputy Minister of Labor and Social Security

PROJECT SUMMARY
REPUBLIC OF PARAGUAY
PROGRAM TO SUPPORT JOB PLACEMENT
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Financial terms and conditions				
Borrower: Republic of Paraguay			Amortization period:	25 years
Executing agency: Ministry of Justice and Labor (MJT)			Grace period:	5 years
Source	US\$	%	Disbursement period:	5 years
IDB (OC)	5,000,000	50	Credit fee, inspection and supervision fee:	*
Local	5,082,165	50	Interest rate:	LIBOR
Total	10,082,165	100	Currency:	U.S. dollars
Project at a glance				
<p>Project objective/description: The program will support the MJT in expanding the coverage and effectiveness of its active employment policies in order to improve job placement and worker productivity. Specifically, the expected impact is to help improve job placement for young people who participate in new training models, and the expected outcome is to build the capacity of the General Employment Directorate (DGE) to coordinate services through a one-stop window, measured in accordance with four indicators: (i) number of people served per year by the DGE; (ii) time in minutes required to register each person; (iii) job openings registered by the DGE per year; and (iv) number of people who receive training with the new job placement training models, specifying the percentage of women (see paragraph 1.20).</p>				
<p>Special contractual clauses: Conditions precedent to the first disbursement will be: (i) entry into effect of the program's Operating Regulations, previously approved by the Bank; (ii) creation by Ministerial Resolution of the program coordinating unit (PCU), appointment of the executing agency staff for this unit, and contracting of additional staff required by the PCU (see paragraph 3.1).</p>				
<p>Special disbursement: Upon fulfillment of the conditions precedent stipulated in Article 4.01 of the General Conditions of the loan contract, the borrower may request disbursement of loan proceeds to finance the contracting of the additional staff required by the PCU referred to in condition precedent (ii), which may not exceed 3% of the financing amount.</p>				
<p>Special execution condition: The borrower will contract the program audit firm within the first six months of the first advance of funds from the loan proceeds. The renewal of this advance of funds will be subject to the borrower submitting evidence, to the Bank's satisfaction, of the contracting of the audit firm (see paragraph 3.2).</p>				
<p>Exceptions to Bank policies: None.</p>				
<p>Project qualifies as: SEQ [X] PTI [X] SECTOR [X] GEOGRAPHIC [] HEADCOUNT []</p>				
<p>Procurements: Goods, works, and consulting services will be procured in accordance with the Bank's policies and procedures established in documents GN-2349-9 and GN-2350-9 (see procurement plan).</p>				

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

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problems addressed, and rationale

- 1.1 **Job placement problems.** Economic growth in the last decade was not accompanied by meaningful improvements in the population's ability to find jobs. Although urban unemployment fell from 14.3% in 2000 to 8.3% in 2009 (8.7% women, 7.9% men), and the employment rate for persons not enrolled in a retirement fund fell from 87% in 2000 to 84% in 2008, the underemployment rate continued to grow during that same period (from 23.8% in 2000 to more than 25% in 2009) due to the deterioration in earned income. According to the 2009 Household Survey, only 41% of the employed receive salaries; of these, only 37% are enrolled in and contributing to social security.¹
- 1.2 Young people are particularly impacted by this situation. Unemployment affects 13% of urban youth ages 18 to 29, 25% of whom neither study nor work (NiNis). The unemployment rate among young people with 9 to 12 years of education (15%) is higher than that for young people with fewer than 9 years (9%) or more than 12 years (11%) of schooling. The percentage of NiNis (26%) in this group is also higher. Of those employed, most young people between 18 and 29 (56%) are employed in microenterprises with extremely low productivity; of these, 51% have no employment contracts. This illustrates the difficulties faced by Paraguayan workers and in particular, young people, in finding quality jobs. This information is particularly relevant because people under 30 represent almost 60% of the population.
- 1.3 **The gender dimension.** These figures are higher for women than for men: 17% of women in urban areas aged 18 to 29 with 9 to 12 years of education are unemployed; 36% neither study nor work. If young people who do housework in their homes are excluded, the percentage of women NiNis continues to be higher than men (22% versus 12%).
- 1.4 **Incipient supply of skills required by the production sector.**² The quality of education creates serious deficits in mathematics, science, and reading, as indicated in the findings of the Second Regional Comparative and Explanatory Study (SERCE).³ According to interviews with representatives of the private sector and training agencies, in addition to the cognitive deficits (technical and basic: critical thinking, basic comprehension, occupational safety), many Paraguayan young people lack noncognitive skills (including skills related to responsibility,

¹ These figures do not include civil servants, who contribute to public sector retirement funds.

² The production sector includes private enterprises of any size, economic sector, and branch of activity.

³ UNESCO Regional Office for Education for Latin America and the Caribbean (OREAL)/United Nations Educational, Scientific and Cultural Organization (UNESCO). 2008 Primer Reporte SERCE [First SERCE Report]. *Los aprendizajes de los estudiantes de América Latina y el Caribe* [Learning among Latin American and Caribbean students].

self-esteem, self-control, and teamwork), which are highly regarded by employers.⁴ The production sector has indicated that it cannot fill its employment needs, primarily for operators of technical equipment, skilled trades, and manual labor (29.7%),⁵ for the occupational profiles of mechanics, electricians, and maintenance workers (24.3%), and for sales, administrative, and collection staff (24.3%).^{6,7} Despite the unmet demand and growing economic sectors, businesses resist investing in training. Businesses are particularly reluctant to pay for training for cross-cutting or general skills that can be used on any job. For their part, workers have limited funds and information on which centers offer quality training, and which jobs offer high expected returns. This reduces their incentive to seek training, which results in low levels of training, low productivity, and low employability.⁸

1.5 Incipient institutional capacity to respond to the country's labor challenges.

The National Employment Directorate (DGE) has employment offices with minimal facilities and computer equipment to serve a low level of demand. For example, in 2010 the Asunción employment office provided individual job counseling to 562 people and referred 222 people to businesses; in addition, it identified 98 job openings and contacted 79 companies. Currently, there are employment offices in Asunción and in five departments (Concepción, Guairá, Caazapá, Amambay, and Cordillera).⁹ Paraguay has two national training institutes, funded by a 1% tax on the formal employment payroll: the National Vocational Education and Training System (SINAFOCAL) and the National Service for Professional Advancement (SNPP), which operate under the competent authority for this area (currently the Office of the Deputy Minister of Labor and Social Security (VMTSS)). SINAFOCAL receives 30% of the payroll tax, and in 2010 its budget was US\$5.3 million, of which it only executed 77%. Unlike SNPP, which offers courses directly in its own facilities with its own instructional staff, SINAFOCAL contracts its training activities. Therefore, it does not need facilities or permanent instructors to offer training. At present, since SINAFOCAL does not have systematized mechanisms for identifying the training needs of the production sectors, its course offerings are based on: (i) requests for courses by departmental

⁴ The program's additionality will include evidence generated on the shortcomings in cognitive and noncognitive skills of persons served by the DGE, and information on the human resource requirements of the production sector; this information will facilitate improved decision-making in the future and better use of public spending.

⁵ Compared with sales and services 21.2%, finance and administration 19%, various technical areas 12.7%, natural and applied sciences 10.6%, service personnel 10.6%, social sciences, education 4.2%.

⁶ Compared with cook 12.8%; manager, assistant manager, human resources, administration, and finance 10.6%; baker 10.6%; driver 6.4%; guard 6.4%; receptionist 6.4%.

⁷ SENADE, IDBDocs 36391799. Interviews with 47 businesses in the city of Asunción.

⁸ The program's additionality will include the generation of statistics on labor market trends, including growing economic sectors, average salary per sector, and occupational profile.

⁹ These offices receive support from the Spanish Agency for International Development Cooperation (AECID), which is also supporting the establishment of an office in the department of Alto Paraná.

and municipal governments, cooperatives, trade associations, labor unions, and others; (ii) general surveys conducted by SINAFOCAL representatives in each of the country's departments; and (iii) training requests from groups of interested individuals.¹⁰

- 1.6 Thus, although a significant number of courses were offered (in 2010 some 24,450 people received training through SINAFOCAL's contracted courses, and 87,500 people received training through SNPP courses), for the most part the courses were classroom taught which, according to evidence, are less effective than those taught at the work place (Urzúa and Puentes, 2010). Moreover, the training provided was predominantly technical, with insufficient attention given to training in basic and cross-cutting skills, which recent impact assessments show yield better results for job placement than technical training alone.¹¹ Moreover, no instruments are used to identify skill gaps, preventing the training from targeting people's different needs. The connection between production sector needs and the courses offered is also weak, another characteristic of poor performance. Finally, monitoring and evaluation mechanisms are inadequate for monitoring outcomes and impact in terms of improvements in beneficiaries' job performance, which would make it possible to adjust training content and agendas based on experience.
- 1.7 **What has been done about this in the Republic of Paraguay?** Among the principal programs and policies of the Ministry of Justice and Labor (MJT), youth employment is a key element of the strategic plan of the VMTSS. The following objectives have been targeted for development: strengthen the National Youth Employment Development Board; perform a diagnostic assessment of the status of young people in the job market, with a gender perspective; draw up a youth employment strategy; adopt the strategy as a road map for the VMTSS (the last three with the support of the International Labour Organization); contribute inputs to the social dialogue on the draft legislation on youth employment; and monitor the young people that entered the job market through the DGE, as well as their stability on the job. To this end, the DGE created a one-stop window with the overarching purpose of: (i) ensuring effective coordination of training actions and job placement as integrated stages of a single process; and (ii) ensuring that beneficiaries have access, in a single location, to all information related to job training and job placement services.¹² In addition, six DGE offices are being established in collaboration with intendancies and/or subnational governments, including the offices of Departamento Central in Luque, Villa Elisa, and Fernando de la Mora. Lastly, the DGE has signed a collaboration agreement with the Unión Industrial

¹⁰ SINAFOCAL, IDBDocs 36391677.

¹¹ SINAFOCAL courses include a 25-hour module on socioemotional skills, which is well below the number of hours provided by programs whose evaluations have indicated positive and significant impact in improving such skills.

¹² Ministerial Resolution 554/11 approved 27 July 2011. IDBDocs 36380638.

Paraguay [Paraguayan Industrial Union] (UIP), which brings together the main business organizations from various sectors.¹³

- 1.8 **Bank strategy in the sector and in the country.** The Bank has supported the country with financial and nonfinancial operations for more than 20 years. This has included loan operations to improve the vocational training system (loans 813/OC-PR and 851/OC-PR)¹⁴, and others focused on training for specific sectors (loan 1776/OC-PR for civil services; loan 2453/OC-PR for tourism). The contributions of donors (Multilateral Investment Fund (MIF) and regular funds) through nonreimbursable technical cooperation projects addressing job training and job placement for at-risk youth (rural, in businesses, technologies) have been strong and consistent.
- 1.9 This operation is framed by the Bank's country strategy with Paraguay (2009-2013), approved on 24 February 2010 (document GN-2541-1), through the priority area of the social sector. Specifically, it will address technical training and the transition from school to the job market through actions to strengthen the DGE and coordinate it with SINAFOCAL and SNPP within the framework of the DGE's one-stop window. The operation will also contribute to the expected outcome of the Bank's country strategy to improve the school-to-work transition. The strategy also supports the first three strategic development objectives of the Paraguayan government's 2008-2013 Strategic Economic and Social Plan: (i) to further economic growth while generating more jobs and improving income distribution; (ii) to strengthen State institutions with a view to improving the effectiveness of public policies; and (iii) to increase and improve investment in social sectors, especially in education and health, targeting public spending to combat extreme poverty. This operation will contribute to that area by helping improve job skills and job placement for individuals. The program addresses the priority of the Ninth General Capital Increase (GCI-9) "to reduce poverty and enhance equity," and will contribute to the indicator "individuals benefited from programs to promote higher labor market productivity."

B. Justification of the loan

- 1.10 As in other countries of the region, Paraguay's active labor market policies aim to enhance social equity by increasing job opportunities in the formal market for the most vulnerable groups, while at the same time increasing productivity by: (i) improving the information available on job openings and job seekers, as well as the linkages between the supply and demand for work, in order to improve efficiency, hiring conditions, and the matches between the supply of and demand

¹³ During the operation's design, discussions were held with specific sectors, including the construction chamber, the chamber of commerce, and others. Based on the general DGE-UIP agreement, steps will be taken to sign agreements with specific chambers or businesses, as part of the means of verification of the output "linkage strategy with the production sector," as described in paragraph 2.2 of the program's monitoring and evaluation plan.

¹⁴ See paragraph 1.17.

for skills; and (ii) upgrading the core and technical competencies of workers, in order to strengthen work productivity.

- 1.11 With regard to the objective of improving information on supply and demand, Flores-Lima (2010) found that although people who use employment services are not more likely to find jobs or be unemployed for shorter periods of time, jobs obtained through such services are of higher quality and relevance than those obtained through other means (for example, through relatives or acquaintances). In Mexico, the study found that employment services have a positive impact on the monthly incomes of those who obtain jobs (94% higher than for the comparison group), the number of hours worked per week (71% more than for the comparison group), the economic conditions, and the position on the job. Card, Kluve, and Weber (2009) conducted a meta-analysis of active employment policies and concluded, however, that there are too few impact assessments with cost information to be able to analyze the cost-effectiveness of these interventions.¹⁵
- 1.12 In Paraguay, the DGE, through the one-stop window, has the mandate to lead the country's active labor policies. However, as mentioned earlier, the DGE has not had the capacity or the resources required to meet the needs of both job supply and demand. This program will support the consolidation of the DGE in this new role, including the coordination of job counseling and job placement services currently offered by the DGE with the vocational training services offered by SNPP and SINAFOCAL. To this end, several actions are proposed: (i) to expand and consolidate the DGE's territorial coverage, providing training for human resources, refurbishing existing offices, opening new offices, and creating a mobile office to serve areas far from the permanent offices;¹⁶ (ii) to improve the existing information system to integrate the beneficiaries of all three institutions, and provide relevant information to participating stakeholders, including individuals and businesses; and (iii) to develop a series of instruments for strengthening labor policy effectiveness, including strategies to create linkages among public institutions, the production sector, and job seekers (in both cases with specific strategies to increase the number of women placed in jobs), instruments for assessing the skills offered and those needed, mechanisms for managing service quality, and information systems on the outcomes of the one-stop window.
- 1.13 The areas prioritized for opening and strengthening employment offices are located in the departments of San Pedro, Caaguazú, Alto Paraná, and Amambay. The departments of San Pedro and Caaguazú are areas where poverty reduction programs are under way, coordinated by the Social Cabinet of the Office of the

¹⁵ References: Flores-Lima, Roberto (2010), *Innovaciones en la Evaluación de Impacto del Servicio de Intermediación Laboral en México* [Innovations in the impact assessment of job brokerage services in Mexico], IDB. Card, David; Kluve, Jochen; and Weber, Andrea (2009). "Active Labor Market Policy Evaluations: A Meta-Analysis," IZA Discussion Papers 4002.

¹⁶ The program covers eight offices (plus one mobile unit). According to the 2002 population census, Paraguay has 33 cities with more than 10,000 inhabitants; ideally, each should have a DGE office providing services through the one-stop window. Therefore, program coverage will be 24% (8 out of 33).

President of the Republic, and which include interagency coordination with public agencies, including the MJT. The aim is to establish employment offices in the department capitals—San Pedro del Ykua Mandyju and Coronel Oviedo, respectively—which are the principal population and economic development centers of those departments. Although the departments of Alto Paraná and Amambay already have employment offices, office facilities need to be consolidated and the coverage of public employment services expanded. These departments border with Brazil, where there is a strong flow of job supply and demand, a scenario that is common in border areas. The offices will be in the cities of Santa Rita in Alto Paraná and Pedro Juan Caballero in Amambay.

- 1.14 The program aims to help increase the quality and relevance of publicly funded job placement and vocational training services. On the one hand, employers who wish to fill job openings will have access to competent personnel, procedures, and systems for registering, orienting, and coordinating their demand in an efficient, pertinent manner. This will expand their options and the suitability of candidates, which will reduce the time and costs incurred in hiring, as well as the costs generated by the short-term turnover of staff due to a poor skills match between the job profile and the individuals hired. Job seekers will have more and better information on employment opportunities and an assessment of the skills needed for the job, which will enable them to apply for training courses and/or openings that better match their profile and work expectations. Training institutions will have more and better information on which sectors need workers and the profiles they require. Lastly, businesses will benefit from more complete information on the skills of available job seekers and training options for workers.
- 1.15 Although it would be beneficial to have a comprehensive impact assessment of the services of the one-stop window, for example, building on Flores-Lima's findings for Mexico (2010), the incipient state of development of the DGE and especially of the recently created one-stop window suggests that a gradual approach is necessary. This operation aims to strengthen and expand the operation of the one-stop window, and will monitor several monitoring and management indicators. It will also move forward with an impact assessment of one of the services offered by the one-stop window, in particular, SINAFOCAL's traditional courses. This assessment, together with the evaluation of new training models to be implemented under the operation, as described below, will generate empirical evidence that can be used to make adjustments in the training mechanisms. Specifically, it will generate lessons learned for SINAFOCAL and for other professional training institutions, such as the SNPP.
- 1.16 With regard to improving basic and technical skills, Urzúa and Puentes (2010) examined 215 evaluations of training programs worldwide, of which 20.7% were in Latin America and the Caribbean. The principal lessons learned from this study are: (i) programs specifically designed to improve the employability of specific groups are usually more successful than general programs; (ii) intensive training programs that address skill sets tend to be more successful; (iii) programs that use market

information to continually adjust their design tend to have better results; (iv) although no firm evidence exists regarding the most effective time to initiate training, economic intuition suggests that early training programs will be more effective than those designed for adults (Organization for Economic Cooperation and Development (OECD), 2002); (v) when training activities are integrated with job placement activities they are more effective; and (vi) an evaluation mechanism must be included from the design phase that considers both benefits (private and social) and costs, collects relevant data, and includes pilot programs (ideally with experimental components) to make it possible to adjust and refine program design. According to Ibararán and Rosa-Shady (2009), although impact assessments of job training programs in developed countries do not, in general, show positive impacts, most job placement training programs in the region show impact on the quality of work found (higher income and in the formal market).¹⁷

- 1.17 One lesson learned from the Bank's experience in job training and placement operations is the need for relevance in training by creating a stronger link with the production sector and establishing quality control and monitoring mechanisms for the services provided. This requires developing and sustaining a capacity to monitor and evaluate the institutions that provide training and the performance of participants. Experience also shows that it is important to begin with gradual interventions by developing pilot projects using certain methods in certain economic sectors in order to consolidate design and performance. Thus, the proposal aims to develop the program progressively, considering dimensions related to its scaling and sustainability as of the design stage, while developing the capacity to monitor and evaluate the quality and impact of the services provided in order to adjust and expand those interventions with the highest internal rates of return.¹⁸
- 1.18 The program aims to launch new forms of job training in Asunción and Departamento Central, in collaboration with SINAFOCAL, using lessons learned to evaluate new designs for course content and duration, as well as the linkages with the production sector and impact compared to existing training methods. The objective is to improve SINAFOCAL operations, thereby increasing the effectiveness of public policy. The operation will leverage public resources since, although SINAFOCAL has funds, it currently lacks instruments for identifying

¹⁷ References: Urzúa, Sergio and Puentes, Esteban (2010). La evidencia del impacto de los programas de capacitación en el desempeño en el mercado laboral [Evidence of the impact of training programs on performance in the job market]. IDB. SCL/LMK. Technical note IDB-TN-268. Organization for Economic Cooperation and Development (OECD). 2002. Employment Outlook. Paris: OECD. Ibararán, Pablo and Rosas-Shady, David (2009), "Evaluating the Impact of Job-Training Programs in Latin America: evidence from IDB-funded operations," *Journal of Development Effectiveness*, 2(1), 195-216.

¹⁸ These lessons learned come from sources including the project completion report for Paraguay loan 851/OC-PR, which indicates the need to establish, from the operation's outset, the design and development of learning processes and monitoring and evaluation mechanisms (p. 28).

private sector demand, evaluating applicants' skills, systematizing information on the trainees, or monitoring and evaluating outcomes.

- 1.19 The operation will help the DGE, in collaboration with SINAFOCAL, to coordinate three groups: (i) young job seekers; (ii) production units that need personnel; and (iii) job training agencies. Young people who go to the DGE will have an initial interview, receive job counseling services, and be given an assessment test to determine their cognitive and noncognitive skills. Young people who meet the eligibility criteria will participate in the new training models, which will be based on the findings of the analysis of the growing economic sectors and their human resources needs. SINAFOCAL will strengthen its role as manager of vocational training by: (i) developing curriculums in direct contact with businesses that require human resources; (ii) performing monitoring during and after the course; (iii) accrediting institutions; and (iv) evaluating instructor quality. Lastly, a mechanism will be developed whereby the production sector can certify the young people who received training.

C. Objectives, components, and cost

- 1.20 The general objective of this operation is to support the MJT in expanding the coverage and effectiveness of its active employment policies in order to improve job placement and worker productivity. The expected impact is to help improve job placement for young people who participate in new training models. Specifically, the population served by these models is expected to experience a 10 percentage point increase in obtaining formal jobs and a 7% increase in hourly income, as compared to a control group (group excluded from participation in the program) that seeks employment through means outside the operation. The expected outcome is to build the DGE's capacity to coordinate services through the one-stop window, measured as: (i) number of people served per year by the DGE; (ii) time in minutes required to register each person; (iii) job openings registered by the DGE per year; and (iv) number of people served by new job placement training models offered by the DGE and SINAFOCAL; it is expected that 50% of the new jobs will be obtained by women.
- 1.21 In short, the operation seeks to consolidate and expand the DGE's national coverage, help increase the quantity and quality of job market information, and provide businesses and people who need it with better job counseling, training, and placement services. To this end, investments will be made in staff development and professionalization (including raising gender equality awareness), knowledge creation, physical infrastructure, furniture, appropriate equipment, and relevant information systems. In addition, the technical capabilities of the one-stop window will be strengthened to enable it to offer better employment counseling, training, and placement services. During program execution, the one-stop window is expected to serve 17,800 people, and to have an installed physical and human capacity to serve a larger number of people in the future. In turn, to strengthen the role of the DGE's one-stop window, the operation will develop a job placement training intervention in Asunción and Departamento Central that targets young

people between 18 and 29 who have between 9 and 12 years of education. The goal is to serve 2,900 young people. The reason this initiative is being launched at the regional and not the national level is due in part to the limited experience with coordination between institutions, and the lack of an adequate assessment of individuals' skills, the production sector's needs, quality control of the services offered, and monitoring and evaluation of the interventions' outcomes. It is also due to the fact that the Government of Paraguay decided earlier that the pilot phase of the one-stop window would be carried out in these two departments, since a large part of the country's economically active population is concentrated there, and they are experiencing economic expansion. Young people between 18 and 29 were selected, first because this is the age defined in the Youth Employment Programme proposal, and second because studies show that the unemployment and underemployment rates for this segment of the population are higher than for the rest of the population. In addition, it was limited to young people with between 9 and 12 years of schooling because literature shows that people with more serious educational shortcomings require interventions that exceed the scope of this operation (Urzúa and Puentes, 2010).

- 1.22 **Component 1. Expand and consolidate the DGE and the network of employment offices (US\$4.4 million).** This component aims to invest in physical infrastructure, furniture and equipment, and information systems, and to build the technical capabilities of the one-stop window so it can offer better job counseling, training, and placement services. This will be done with three subcomponents.
- 1.23 **Subcomponent 1.1. Infrastructure.** The Bank will finance infrastructure works, and the purchase of equipment and furniture for refurbishing the physical space in the Asunción and Central (in the cities of Fernando de la Mora, Luque, and Villa Elisa) offices. It will also expand the DGE's coverage with investments to establish four employment offices in the cities of Santa Rita (Alto Paraná), Coronel Oviedo (Caaguazú), San Pedro del Ykua Mandyju (San Pedro), and Pedro Juan Caballero (Amambay), as well as a mobile office. These offices will be equipped with the furniture and equipment they need for effective operation. Two vehicles will be procured for the offices in Asunción and Central. The MJT will staff the offices.
- 1.24 **Subcomponent 1.2. Support the DGE's information and management systems.** This subcomponent will support the development of the MJT areas involved in the development of employment policies, programs, and projects, with particular emphasis on providing the DGE with the resources it needs to fulfill its role as a one-stop window, including: (i) the information systems of the one-stop window (including design, development, and implementation, as well as procurement of hardware and software); (ii) a system for monitoring the performance of people served through the one-stop window (including design and implementation of a monitoring methodology and instruments), as well as a monitoring specialist; (iii) a management system for job placement services; (iv) an integrated job market information system (including design of the system and regional studies, publications, sector analyses on an established schedule); (v) the design,

development, and implementation of a job portal, with technical support for its administration; and (vi) evaluations of the one-stop window's services, including a midterm evaluation (outcome and processes), and an impact assessment of one of the services offered by the one-stop window: SINAFOCAL's traditional courses.

1.25 Subcomponent 1.3. Support the technical capabilities of the one-stop window.

The operation will develop instruments and provide training for the staff of the one-stop window in order to improve service to users (workers and employers). This will be achieved through: (i) the design and implementation of a training plan for DGE and SINAFOCAL staff, to update the monitoring, supervision, administration, and pedagogical capacities of SINAFOCAL courses, DGE services, and the services of the one-stop window; (ii) actions to develop linkages with the production sector, including increasing awareness of gender issues so as to ensure equal opportunities for women in nontraditional jobs; participatory workshops with stakeholders in the job market, seminars, and technical briefings so the one-stop window can identify the significant production sectors of the country's economic structure that have prospects for growth; identify the chambers and businesses that need workers; survey skills needs; quantify businesses' willingness to hire young people that meet their requirements; and target SINAFOCAL-funded training services; (iii) implementation of linkage strategies with users of the one-stop window, including the gender approach; (iv) design and implementation of strategies for communicating program outcomes; (v) design, application, and systematization of instruments that measure quality and relevance for training institutions, individuals, and businesses; (vi) design and implementation of a quality management and certification system for DGE processes; and (vii) development of operational manuals that include flow charts of the processes and procedures.

1.26 Component 2. Support job placement services for young people (US\$4.6 million). In order to turn the DGE into a one-stop employment window that provides access to integrated services while increasing the likelihood of people finding jobs, this component will support the development of new training models for a target population in a defined geographical area. These training models will introduce skills assessments for participants, as well as the instruments developed in component 1: quality control mechanisms, relevance and evaluation of current training interventions, and the coordination of the DGE and SINAFOCAL. To that end, an agreement was signed between the two services under which SINAFOCAL agrees to provide training for young people under the program, in accordance with the job skills required in the production sector. These training models will target young people ages 18 to 29 who have between 9 and 12 years of approved formal education and who reside in Asunción or Departamento Central. Vulnerable groups, such as women and heads of households, will be prioritized. By program completion, it is expected that 50% of the people placed in jobs will be women.

1.27 An instrument will be developed for assessing the cognitive (basic) and noncognitive (socioemotional) skills of young people who meet the eligibility criteria (age, education, and place of residence) to identify skill gaps and thus better

target and orient the most appropriate type of training. Beneficiaries will be selected by lot to ensure equal opportunity. In order to create a control group for purposes of evaluating program impact, the eligible population will be larger than the population served. The training courses will be tailored to the production sector needs identified with the instruments developed under subcomponent 1.3. To encourage young people's participation and reduce the risk of their dropping out, the program will cover the opportunity cost of their not working during the training, transportation costs, and refreshments; women with children will receive support to cover the childcare costs during training and for their first month on the job.¹⁹

- 1.28 **Intervention models.** Given the many aspects involved and highlighted in the experience with and evaluation of this type of program (Urzúa and Puentes, 2010), the lack of evidence of the cost-effectiveness of different arrangements in the country, and the various skills the target population may need to strengthen to improve job placement, it is important to begin with pilot projects with certain methods and in certain economic sectors in order to gradually consolidate design and performance. In other words, the idea is to develop the program gradually, considering dimensions related to its scaling and sustainability as of the design stage, while monitoring and evaluating options in order to adjust and expand the alternatives with the highest internal rates of return. Technical cooperation operation PR-T1122 will design different training methods, in terms of content (cognitive skills (basic and technical), noncognitive skills, and occupational safety) and duration. Emphasis will be placed on offering on-the-job training, especially for modules proven to be more effective when conducted at the work place.
- 1.29 **Economic sectors.** The program recognizes the importance of working with economic sectors that are growing and/or are projected to grow, to ensure actual job placement for participating young people. The production sectors will define the profiles and validate the training content. The program also aims to strengthen the DGE's ties with chambers and production units in order to consolidate its role as a one-stop window. Based on discussions with the production sector's primary stakeholders, and the expected demand for training, the following sectors were pre-identified: clothing, footwear, construction, metallurgy (for example, different types of welding). Technical cooperation operation PR-T1122 will support sector studies to more precisely identify the economic sectors with which the program will work.
- 1.30 **Cost and financing.** The cost of the program is US\$10 million, of which the Bank will finance US\$5 million, drawn on its Ordinary Capital (OC); the Republic of Paraguay will provide US\$5 million.

¹⁹ The program will also work with the businesses so they include childcare support for their employees.

Table I.1 - Budget (US\$)

Component	IDB (OC)	Republic of Paraguay (*)	Total
Component 1. Expand and consolidate the DGE and the network of employment offices	3,715,290	708,625	4,423,915
Component 2. Job placement training for young people	446,850	4,112,740	4,559,590
Program administration	410,400	250,800	661,200
Accounting and management audit	90,000	10,000	100,000
Contingencies	337,460	-	337,460
Total	5,000,000	5,082,165	10,082,165

(*) The Government of Paraguay has indicated that the local contribution will come from the budgetary resources of the DGE (US\$2 million) and SINAFOCAL (US\$3 million), both of which are units of the MJT.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The Bank will support the operation with an investment loan financed with Ordinary Capital resources (US\$5 million). The expected disbursement period is five years. Annual amounts will be contingent on budget availability.

Table II.1. Disbursement timetable (US\$)

	Year					Total
	1	2	3	4	5	
Total	566,805	1,704,255	1,430,145	509,335	789,460	5,000,000

Note (*): The first year amount is estimated on the basis of the AWP for the program's first 12 months.

B. Environmental and social safeguard risks

- 2.2 **Environmental and social risks.** Given its nature, this program includes no activities that will cause adverse environmental and/or social impacts. It was classified as a category "C" operation. The program contributes to objective (ii) of the Poverty Reduction and Promotion of Social Equity Strategy (see operational policy OP-1002 and paragraph 3.19 of document GN-1894-7), by supporting comprehensive poverty-reduction strategies and promoting economic opportunities for the poor.
- 2.3 Upon program completion, it is expected that 50% of the people placed in jobs through the new training models will be women. This is a challenge because labor statistics indicate that it is more difficult for women to find jobs than men. To mitigate this risk, the linkage strategies with people and the production sector will include activities that use the gender approach to promote training and job placement for women. Moreover, the staff training plan for DGE and SINAFOCAL

will aim to ensure gender equality in service delivery, and gender-sensitive service protocols will be developed. In addition, the DGE will provide support for women with children (who participate in the new training models) by covering the cost of childcare during training and their first month on the job. It is hoped that businesses will be able to provide childcare support after that.

- 2.4 A possible risk in this type of program is for participants to drop out of the new job training models. Dropping out can be associated with several factors: (i) insufficient resources to attend the program. Accordingly, the program budget includes funds to cover participants' transportation to and from the training site, refreshments, the opportunity cost of not working, and, as mentioned above, for mothers, the cost of childcare; (ii) the relevance and quality of courses, either because the courses are not relevant, or because participants' initial skills were not assessed. To mitigate this risk, the operation includes development of instruments, such as the individual skills assessment, curriculum design with the active participation of the production sector interested in hiring participants, implementation of management and quality control instruments, etc.; and (iii) young people may also drop out if they find a job, among other reasons. All participants will be monitored to determine why they drop out, so that mitigation measures can be adopted in future stages of the program.

C. Fiduciary risks

- 2.5 **Fiduciary considerations.** Fiduciary risks relate to noncompliance with the initial procurement plan and annual work plan, as well as to delays in program startup, generating a high risk in the current conditions under which the risk management assessment was performed. In addition, application of the institutional capacity assessment of the MJT's subsystems found that overall risk was "substantial." This creates the need for a short- and medium-term mitigation plan for the DGE's offices. This plan aims to provide human resources with the management skills needed to perform their habitual functions, especially those related to this project, upgrading computer equipment, and providing resources for budget execution. The fiduciary risks for the program are detailed in Annex III.
- 2.6 **Capacity for implementation and sustainability.** The MJT's institutional capacity was assessed, with particular emphasis on the DGE as the program's executing agency. The weighted result according to the methodology used showed incipient development of institutional capacity and substantial levels of risk. An institutional strengthening plan has been designed that includes a breakdown of proposed mitigation actions, costs, and responsible parties, based on the areas identified in the assessment as needing improvement. These are considered institutional strengthening activities.

D. Other risks

- 2.7 **Macroeconomic framework.** One risk for the active employment policies is that outcomes depend on the macroeconomic environment. Using five-year analyses, it was noted that between 2006 and 2010, average GDP growth in Paraguay (5.7%) was higher than that of the preceding five-year period (2.6%). For the medium

term, although average GDP growth may be slightly lower than the previous five-year average, it will still be higher than the average forecast for the region.²⁰

- 2.8 **Governance and political environment of the sector.** The change of government in 2013 poses a risk to the changes in the institutional framework that could affect the MJT, which is characterized by a certain degree of institutional weakness in terms of budgeted resources. Risk mitigation measures have been provided, linked to the partnerships to be developed between the MJT and other institutions, such as SINAFOCAL, which has a more stable resource base. To that end, a collaboration agreement has already been signed between the DGE and SINAFOCAL.²¹

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Executing agency.** The MJT will be the executing agency. Program administration and execution will be the responsibility of the DGE, whose organizational structure was recently institutionalized. A small program coordinating unit (PCU) will be responsible for program management. The MJT will be responsible for program execution, including accounting records of the loan proceeds, compliance with the Operating Regulations, and coordination of all related technical and operational activities. **Conditions precedent to the first disbursement will be: (i) entry into effect of the program's Operating Regulations, previously approved by the Bank; (ii) creation by Ministerial Resolution of the PCU, appointment of the executing agency staff for this unit, and contracting of additional staff required by the PCU.**
- 3.2 **Special disbursement.** Upon fulfillment of the conditions precedent stipulated in Article 4.01 of the General Conditions of the loan contract, the borrower may request disbursement of loan proceeds to finance the contracting of the additional staff required by the PCU referred to in condition precedent (ii), which may not exceed 3% of the financing amount. Special execution condition: The borrower will contract the program audit firm within the first six months of the first advance of funds from the loan proceeds. The renewal of this advance of funds will be subject to the borrower submitting evidence, to the Bank's satisfaction, of the contracting of the audit firm.
- #### B. Procurement of goods and services
- 3.3 **Procurement.** Works, goods, and consulting services financed in whole or in part with the loan proceeds will be procured in accordance with Bank policies GN-2349-9 and GN-2350-9. Program procurement will be reviewed on an ex ante basis (see Annex III), except when the procurement plan stipulates otherwise. If the procurement plan stipulates ex post review for certain processes, the frequency of

²⁰ See optional link "Sector Note," IDBDocs 36392090.

²¹ See optional link IDBDocs 36391782.

review will be at least every six months, and the executing agency's capacity will be assessed annually by the Country Office's procurement specialist. All procurement during a given period will be included in the procurement plan approved by the Bank, and will use the methods and ranges established therein. The Bank's team and the executing agency have drawn up a procurement plan specifying the type, method, and estimated amount of procurement, as well as whether prequalification is required. The procurement plan will be included in the Procurement Plan Execution System once the operation has been approved.

- 3.4 **Advances of funds.** Loan proceeds will be disbursed through advances of funds. To this end, the executing agency must first submit a six-month financial plan showing the real need for resources; this advance may be renewed as often as necessary after submitting supporting documentation for 80% of the resources allocated in the first request. The AWP will serve as the basis for planning activities and establishing primary costs. Requested resources must be certified by the audit firm contracted at the beginning of the program.

C. Audit

- 3.5 The executing agency will submit the program's annual financial statements, audited by an eligible firm of independent auditors selected in accordance with the Bank's current policies and procedures. These audited financial statements will be submitted annually within 120 days after the close of each fiscal year. Audit costs will be covered by resources from the Bank's loan. Both the selection process and the contracting process will take place at the start of program execution in order to define the firm's role in the execution of program investments.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	Contributes to support lending to (i) small and vulnerable countries, and to (ii) reduce poverty and enhance equity.		
Regional Development Goals	Aims to increase the share of formal employment in total employment.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	2900 people will be trained and 17800 will receive labor intermediation support.		
2. Country Strategy Development Objectives			
Country Strategy Results Matrix	GN-2541-1	Improve school-to-work transition.	
Country Program Results Matrix	GN-2617	The project is included in the 2011 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	9.4		10
3. Evidence-based Assessment & Solution	7.6	25%	10
4. Ex ante Economic Analysis	10.0	25%	10
5. Monitoring and Evaluation	10.0	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood	Medium		
Environmental & social risk classification	C		
III. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: Budget, Treasury and External Control. Procurement: Information System.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality	Yes	The program wants to promote labor market insertion of women so 50% of participants should be woman.	
Labor	Yes	To create monitoring and follow up systems of beneficiaries. To generate evidence of deficiencies in cognitives and non-cognitives habilities of DGE's beneficiaries and of the productive sector's demand. To generate statistics of the labor market, including developing economic sectors, average salaries by sector and occupational profiles, among others.	
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	Operational Input (OI) PR-T1122.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.	Yes	The impact evaluation will allow to measure the effectiveness of different training modalities, while the process evaluations will measure results of institutional strenghtening.	

This is a proposal for an investment loan of US\$5 million to finance a project that has a total cost of US\$10 million in Paraguay, thus contributing to the lending program to small and vulnerable countries. The objective is to improve labor market insertion of youth and to strengthen the institutions responsible for active labor market policies. Hence, it also contributes to poverty reduction and equity enhancement. The project is aligned with the Bank's strategy in Paraguay and it is included in the 2011 country program document.

The project identifies challenges in terms of labor market insertion and discusses some of the possible causes. The rationale for the potential solutions to the problem and the size of the intervention are explained as well. Results are correctly defined and all indicators are SMART. The monitoring and evaluation plan is adequate and it includes elements to track implementation as well as process and impact evaluations to measure the results of the institutional strengthening as well as of the labor intermediation and training components. An adequate cost benefit analysis is included and the benefits used in the model are included in the results matrix. The program has identified risks, as well as all the required mitigation measures. Furthermore, there are indicators for all of the mitigation measures identified.

RESULTS MATRIX

Program impact:	Contribute to improving job placement for young people participating in the new training models.		
Program objective:	Support the Ministry of Justice and Labor (MJT) in expanding the coverage and effectiveness of its active employment policies in order to improve job placement and worker productivity.		
Expected outcome:	Build the capacity of the General Employment Directorate (DGE) to coordinate services through the one-stop window.		
Impact indicators:	Baseline (2011)	Target at program end (2017)	Observations
Impact: Contribute to improving job placement for young people who participate in the new training models. Indicators: <ol style="list-style-type: none"> 1. Percentage difference between young program beneficiaries who have a formal job in comparison with the control group 2. Percentage difference between the average hourly income of young program beneficiaries in comparison with the average hourly income of the control group 3. Percentage of women who benefited from the new models and obtained jobs 	<p>0</p> <p>0</p> <p>0</p>	<p>10</p> <p>7</p> <p>50</p>	<p>Indicators will be estimated on the basis of an impact assessment of the intervention on job placement training, to be performed three years after execution of the Program to Support Job Placement.</p>

Outcome indicators:	Baseline (2011)				Target at program end (2017)		Observations
Outcome 1: Build the capacity of the DGE to coordinate services through the one-stop window. Indicators: 1. Number of people served per year by the DGE 2. Time in minutes needed to register each person 3. Job openings registered by the DGE per year 4. Number of people trained with the new job placement training models a. Percentage of women							Baseline: job placement software. Database of the one-stop window’s information system
	500				4,500		
	90				30		
	80				2,000		
	0				2,900		
	0				50		
COMPONENT 1: EXPAND AND CONSOLIDATE THE DGE AND THE NETWORK OF EMPLOYMENT OFFICES							
Outputs	Base (2011)	Year 1	Year 2	Year 3	Year 4	Year 5	Source of data/Observations
1.1 Asunción office of the General Employment Directorate (DGE) refurbished, equipped, and operating	0		1				Physical inspection
1.2 Departamento Central offices of the DGE refurbished and operating	0		3				Physical inspection
1.3 Regional offices of the DGE built, equipped, and operating	0			4			Physical inspection
1.4 Mobile office of the DGE implemented and operating	0			1			Physical inspection
1.5 Information model of the DGE designed	0	1					Reports of the DGE’s systems area
1.6 Information system of the one-stop window operating	0		1				Reports of the DGE’s systems area
1.7 System implemented for monitoring and people placed in jobs through the one-stop window	0		1				Reports of the DGE’s systems area

1.8	Integrated information system on the job market implemented	0		1				Reports of the DGE's systems area
1.9	Management system set up for job placement services	0		1				Reports of the DGE's systems area
1.10	Job portal operating	0		1				Reports of the DGE's systems area
1.11	Training provided for staff of the DGE and the National Vocational Education and Training System (SINAFOCAL)	0			200			Monitoring reports. Training records
1.12	Linkage strategy for beneficiaries (job seekers) implemented	0	1					Monitoring reports
1.13	Strategy implemented for communicating the outcomes of the one-stop window	0		1				Monitoring reports
1.14	Quality of DGE processes certified	0			1			ISO certificate issued
1.15	Reports on quality measurement and training relevance published	0		1	1	1	1	Printed documents
1.16	Plan for linking the DGE with the private sector implemented	0		1				Monitoring reports
COMPONENT 2: JOB PLACEMENT TRAINING FOR YOUNG PEOPLE								
	Outputs	Base (2011)	Year 1	Year 2	Year 3	Year 4	Year 5	Observations
1.11	Number of people who received training with the new job placement training models	0	0	300	800	900	900	Roster of SINAFOCAL graduates
1.12	Number of people identified through the skills assessment instrument	0	100	600	1,600	1,800	1,800	Database of the one-stop window's information system

FIDUCIARY AGREEMENTS AND REQUIREMENTS

(Max. 7 pages)¹

Country: Paraguay
Project number: PR-L1066
Name: Program to Support Job Placement
Executing agency: General Employment Directorate (DGE) of the Ministry of Justice and Labor (MJT)
Prepared by: Alberto de Egea and Mariano Perales - Fiduciary Specialists

I. EXECUTIVE SUMMARY

- 1.1 The assessment of the proposed program's fiduciary management was based on the institutional capacity assessment of the General Employment Directorate (DGE) of the Ministry of Justice and Labor (MJT), using the ICAS, and the risk analysis report.
- 1.2 Regarding the state of the country's fiduciary management systems, greater efforts are still needed to build national capacities to address the following risks: (i) high perception of corruption in the country; (ii) weak public sector performance and insufficient efficiency and transparency in the allocation of public resources, which translates into a poor ability to execute budgeted expenditures; incipient use of multiyear perspective in fiscal and financial planning of annual cash flows; lack of adequate records for intergovernmental transfers (departments and municipalities); and low effectiveness of internal control; and (iii) needed improvements in public accounting and auditing as market development practices, and real-time monitoring of the different stages of contract execution. With regard to the executing agency's fiduciary management systems, the institutional analysis found **incipient development and substantial risk levels** for this operation.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 The MJT is the governing agency for public employment policies, responsible for the design, monitoring, and evaluation of vocational training and employment

¹ The Project Team Leader can request that the length of the annex be extended or reduced based on the needs of the project.

policies, including initiatives to be developed to boost job placement and skills development for decent work.

- 2.2 The DGE will be the program's executing agency, and will have the support of a program coordinating unit (PCU), created for that purpose, and administrative support from the MJT's line departments as well as the support of its Contract Operating Unit (UOC) and its Administration and Finance Directorate.

III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 3.1 The Institutional Capacity Assessment System (ICAS) was used to assess the institution and rated the DGE's overall institutional capacity at **50.97%**, indicating **incipient development** (ID) of its institutional capacity and a level of **substantial risk** (SR) for this program. The institutional capacity assessment and the risk analysis identified the following program risks that would affect fiduciary management:
- 3.2 These outcomes are obtained from the results matrix, which yielded a score of 64.58% for planning and organizational capacity, reflecting an average level of development associated with an average level of risk. The assessment of execution capacity yielded a score of 53.14%, which also indicates incipient development and a substantial risk level. Lastly, with regard to control capacity, the score of 36.36% indicates a nonexistent level of development, or a high level of risk. Below are some of the principal risks:
- Ineffectiveness and inefficiency of program execution due to: (i) lack of definition and fragmentation of responsibilities; (ii) weak or nonexistent lines of communication; (iii) outdated lines of responsibility and functions (leadership, authority, communication); and (iv) lack of familiarity with the advantages of teamwork, and the synergy of knowledge and experience in leadership processes.
 - Low productivity and performance quality, lack of motivation and constraints on replacements and promotions; possible irregularities in compensation; limited opportunities for improvement.
 - Delays in procurement execution and in the delivery of goods and services.
 - Losses or inefficiencies caused by poor operation, especially of equipment.
 - Possibility of inadequate separation of functions, lack of appropriate delegation of responsibilities, inefficient management and use of resources, lack of understanding and monitoring of basic functions by financial management staff.
 - The lack of a budgetary management system (for the program) makes it impossible to ensure that all activities have budget resources or are compatible with the agency's authorized objectives; it also makes it impossible to forecast the agency's resources over the short and medium terms.

- Internal control is nonexistent, making it impossible to ensure that the institution is being managed in accordance with the strategic objectives.

These risks should result in a mitigation plan that includes the following:

- The program's Operating Regulations should include and clearly define the planning and programming functions and responsibilities of the various DGE departments associated with the program.
- A system of processes and structures should be implemented in the DGE to simplify the decision-making process, improve time management, and ensure that new processes include functions and responsibilities that allow their implementation.
- The Operating Regulations should be approved, and an appropriate arrangement established for the delegation of duties by level of authority, granting general program coordination the highest level of management autonomy.
- Program documents should require that stability of the team's human resources be prioritized to the extent possible during program execution, subject to objective performance assessments.
- A detailed financial management procedures manual should be prepared for the program that identifies the activities and responsibilities of the DGE's various sections involved in the entire process.
- An information system should be set up for the DGE to enable it to record information on programming, budget execution (of the program and of the General Budget of the Nation (PGN)), and procurement, financial, and accounting management for the investment programs.
- A coordinated management control mechanism should be established among the PCU, DGE, SINAFOCAL, and the MJT for the control, evaluation, and monitoring of the program's budget execution and availability (according to the costs table and the PGN), to generate management information in real time for decision-making, and this should be included as a procedure in the Operating Regulations.
- Procedures and systems should be set up to make it possible to record financial commitments and transactions as they occur.
- Strategies should be adopted and specific actions implemented to manage change in the organizational culture of the MJT, aiming for a decentralized model and results-based management.
- A technology platform should be developed that facilitates comprehensive and timely data processing and consultation.
- The internal audit service should be required to issue periodic reports demonstrating: (i) an appropriate control environment; (ii) effective risk assessment practices; (iii) the existence of appropriate control procedures;

- (iv) appropriate management of the reporting and communication component;
- and (v) the existence of a monitoring component that is operating properly.

IV. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF THE CONTRACTS

4.1 In order to streamline contract negotiations by the project team, and especially the legal department, the agreements and requirements that should be considered in the Special Conditions are described below:

1. Conditions precedent to the first disbursement: (i) Creation by Ministerial Resolution of the program coordinating unit (PCU), staffed by a small team and with minimum physical and technological infrastructure in full operation; the appointment of the executing agency staff for this unit; and contracting of additional staff required by the PCU. The PCU should include the following key positions: (a) the unit's general coordinator, (b) coordinator of component 1, (c) coordinator of component 2, (d) a procurement specialist, (e) a financial specialist, (f) a legal adviser, (g) an administrative assistant, and (h) a monitoring and evaluation specialist; and (ii) entry into effect of the program's Operating Regulations.
2. **Special disbursement:** Upon fulfillment of the conditions precedent stipulated in Article 4.01 of the General Conditions of the loan contract, the borrower may request disbursement of loan proceeds to finance the contracting of the additional staff required by the PCU referred to in condition precedent (ii), which may not exceed 3% of the financing amount.

Other conditions for execution:

3. The exchange rate agreed upon with the executing agency for the rendering of accounts will be the rate on the date of the expenditure published by the Central Bank of Paraguay, or any other rate agreed to with the Bank during execution.
4. The program's financial statements will be annual at the close of the fiscal year, and delivered 120 days after the close. In addition, semiannual execution and financial reports will be submitted 60 days after 30 June and 31 December of each fiscal year. The contract with the program's audit firm should include certification of the expenditures to accompany each request for disbursement or renewal of the advance of funds.
5. **Special execution condition:** The borrower will contract the program audit firm within the first six months of the first advance of funds from the loan proceeds. The renewal of this advance of funds will be subject to the borrower submitting evidence, to the Bank's satisfaction, of the contracting of the audit firm.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

1. Procurement execution

- a. Procurement of works, goods, and nonconsulting services:** Contracts for works, goods, and nonconsulting services² generated under the project and subject to international competitive bidding (ICB) will use the Bank's standard bidding documents. Bids subject to national competitive bidding (NCB) will use national bidding documents agreed to with the Bank. The review of technical specifications for procurement during the preparation of selection processes is the responsibility of the program's sector specialist. Initially, the program anticipates the direct contracting of four plots of land for an estimated US\$160,000.³ It will not be necessary to provide external support to the executing agency for the evaluation of bids, given the nature and technical complexity of the procurement. Prequalification of bidders will not be required given that the works are not complex.
- b. Selection and contracting of consultants:** Contracts for consulting services under the program will use the standard request for proposals issued by or agreed to with the Bank. The review of the terms of reference for the contracting of consulting services is the responsibility of the program's sector specialist. Initially, no selection processes are expected to use direct contracting.⁴
- c. Procurement of information technology (IT) systems:** The Bank's information technology specialist may provide advice on the design of the arrangements for these procurement processes. Contracts using procurement methods other than those of the Bank will not be required.
- d. Advance procurement/Retroactive financing:** Not planned for this operation.
- e. National preference:** Not planned for this operation.

² Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (GN-2349-9) paragraph 1.1: Nonconsulting services will be treated similarly to goods.

³ Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (GN-2349-9) paragraph 3.6: Direct contracting must be duly justified.

⁴ Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank. (GN-2350-9) paragraph 3.9 et seq.: Single-source selection must be duly justified.

2. Table of threshold amounts (US\$ thousands)

Works			Goods ⁵			Consulting services	
International competitive bidding	National competitive bidding	Shopping	International competitive bidding	National competitive bidding	Shopping	International advertising consulting services	Short list 100% national
≥ 3,000	250 to 3,000	< 250	≥ 250	50 to 250	< 50	> 200	< 200

3. Main procurement procedures

Main procurement procedures

Description of planned procurement	Estimated amount (US\$ thousands)	Selection method
Goods	1,179	
Procurement of equipment for the one-stop window, Asunción Office, employment offices of Departamento Central, PCU, and application of skills assessment instruments	339	ICB
Procurement of equipment for four new DGE employment offices	400	ICB
Procurement of fully equipped vehicle for the DGE's mobile office	200	ICB
Procurement of two all-terrain vehicles (Asunción Office, Departamento Central Office)	80	NCB
Procurement of four plots of land	160	DC
Works	570	
Refurbishing of physical space in the DGE offices for the one-stop window, DGE offices in the Departamento Central, and the PCU	282	NCB
Works for four new DGE employment offices	288	NCB
Services	150	
Execution of the staff training plan	150	NCB
Firms	737	
Contracting of a consulting firm to design and develop the information system for the one-stop window	60	QCBS
Contracting of a consulting firm to design and implement a methodology and instruments for monitoring the people served by the one-stop window	80	QCBS
Contracting of a consulting firm to design and implement the integrated management system for the job placement services	150	QCBS
Contracting of a consulting firm to conduct regional studies and sector analyses	170	QCBS
Contracting of a consulting firm to design research and identify instruments for measuring stakeholder quality and relevance	45	QCBS
Contracting of a consulting firm to design the quality system for the processes to be certified	120	QCBS
Contracting of consulting firms or academic institutions to develop curriculums, based on the occupational profiles and teaching materials	112	QCBS

⁵ Includes nonconsulting services.

4. Procurement supervision

Initially, procurement will be subject to ex ante review at the request of the borrower, the Ministry of Finance. **If agreed with the executing agency**, the ex post review of the threshold amounts established in point 2 above will be performed on a case-by-case basis, after two processes using ex ante review in each category have been approved as satisfactory by the Bank. Ex post reviews will be performed every six months, in accordance with the program's supervision plan.⁶

5. Special provisions

- a. Regarding the assessment of the executing agency's fiduciary capacity to execute program procurement, since a PCU will be created to manage the program, it is essential that before initiating execution, all aspects of the unit and its procurement section be established minimally, that is, they have the core human resources they need to operate, suitable physical space, the furniture needed to fulfill their functions, and the appropriate technology infrastructure for efficient management of procurement processes.

6. Records and files

The PCU to be created for program management will keep copies of all the records relating to procurement. For the preparation and filing of the program's reports, the formats or procedures agreed to and described in the program's Operating Regulations will be used.

Financial management

1. Programming and budget

- a. This operation is still in the design stage, and the MJT's Planning and Monitoring Unit has been formally assigned responsibility for planning.
- b. The agency does not have procedure manuals for preparing the AWP, or for monitoring execution of the AWP.

It is agreed that before the first disbursement, the borrower will provide the resources needed to launch the program's core operations, in addition to the resources to be provided by the IDB for the first year of execution.

2. Accounting and information systems

The accrual accounting principle will be used; however, accounts for projects partially financed by the IDB are rendered on a cash basis, following national practices and international accounting and auditing standards.

- a. The MJT's information system needs to be adapted, updated, or replaced so it can record programming information, budget execution (of the program

⁶ Responsibility, support for the review, and methodology are described in the guidelines for ex post review of procurement processes.

and of the PGN), and procurement, financial, and accounting management of the investment programs.

- b. No defined policies and procedures exist for developing/modifying, testing, and implementing accounting systems, including software programs and related data files.
- c. The filing system for the supporting documentation for financial transactions is inadequate to provide documentation in real time.
- d. Budgetary availability is not controlled (in line with the program's cost table) for the stage when budgetary resources are committed.
- e. Financial transactions, especially commitments undertaken, are not recorded as they occur.

3. Disbursements and cash flow

Bank and counterpart resources will be disbursed through a fund advance mechanism, based on a financial plan prepared in accordance with the liquidity needs of each component, and the project execution plan. The DGE will arrange to open a special account at the Central Bank of Paraguay exclusively for use in paying the obligations arising from program execution.

The loan proceeds will be credited to a special account through advances governed by the needs of the operation; similarly, reimbursements for expenditures made by direct payment will be used by the DGE for the operation. The actual need for resources will determine the execution schedule.

For the first and subsequent disbursements of the advance, the executing agency will submit a comprehensive financial plan indicating the resource requirements for the given period; this plan will be based on the AWP, the procurement plan, budget, etc. Disbursements will be justified with a certification of expenditures from the audit firm contracted at the outset of the program; supporting documentation for the expenditures will be kept in the executing agency's files and will be available to the Bank, the auditor, and the ministry itself for up to three years after the end of the program.

4. Internal control and internal audit

Although the Ministry of Justice and Labor has developed instruments for implementing the Standard Model of Internal Control for Public Institutions of Paraguay (MECIP), this process is still in a very early stage of implementation.

The MECIP was formulated based on the National Constitution and Law 1535/99. Its purpose is to enable State institutions and agencies to improve their institutional performance by strengthening ex ante controls under the responsibility of administrative authorities; it also strengthens the ex post controls of the internal audit and general audit services of the Executive Branch with the aim of standardizing criteria and guidelines for evaluation, control, audit, and continuous improvement.

The risks of not having strong internal control are:

- a. Deterioration of values and consequently of corporate governance.
- b. Inability to ensure and measure the fulfillment of targets and objectives.
- c. Inability to ensure that the institution is being managed in accordance with strategic objectives.
- d. Delays in the execution process.
- e. Impossibility and inability to ensure the effectiveness of the supervision process.
- f. The agency's administration may not detect risks in a timely manner associated with the operation of its internal control monitoring system.

5. External control and reporting

- a. The program's audit will be performed by an independent audit firm deemed eligible by the Bank, in accordance with the procedures established in the new audit guidelines in effect for 2010.
- b. The program's audit will be financed with program resources.

6. Financial supervision plan

Financial supervision will take place in three ways: (i) through the control of disbursement reports and review visits; (ii) through site visits scheduled by the Bank; and (iii) through the financial information contained in the financial statements and execution reports.

7. Execution arrangements

The Ministry of Justice and Labor, through the DGE, will be responsible for:

- a. Executing and supervising the proper use of loan proceeds;
- b. Providing the necessary human, technological, and budgetary resources on time and in appropriate form;
- c. Submitting to the Bank the documentation required for fulfilling disbursement conditions and other operational conditions required for execution.

The program's Operating Regulations: (i) will be consistent with the standards and policies of the DGE and the Bank, as well as with the country's current laws and financial practices; (ii) will cover the main characteristics of the program, in terms of use of resources, and (iii) any amendments will require the no objection of the Bank.

8. Other financial management agreements and requirements

The information needed to start up the program will be made available to the lending agency and the consultants.