

LABOR TRAINING AND MODERNIZATION PROGRAM

(DR-0134)

EXECUTIVE SUMMARY

Borrower and guarantor:	Government of the Dominican Republic	
Executing agency:	Ministry of Labor (SET)	
Amount and source:	IDB:(OC/100% IFF)	US\$16.9 million
	Local counterpart funding:	US\$ 4.2 million
	Total:	US\$21.1 million
Financial terms and conditions:	Amortization period:	25years
	Disbursement period:	4.5years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
Objectives:	<p>The program's principal objective is to increase employment opportunities for the low-income population. The program will facilitate opportunities for access to the labor market through work training, counseling and modernization of the Dominican Republic's regulatory framework for labor. The specific objectives are to: (i) increase the employability of the beneficiaries, adapting the training to the labor demands of employers; (ii) assess the effectiveness of different job and training programs; (iii) establish an ongoing dialogue on policies to modernize the labor market; and (iv) strengthen SET in order to increase the effectiveness of its policies and programs.</p>	
Description:	<p>The Dominican Republic's labor market features a low participation rate, short-term unemployment, and highly informal job-search networks. The main objective of the project, to increase the employability of its beneficiaries, will be realized to the degree that SET, along with the job and training services it coordinates, becomes more effective, bringing together labor supply and demand in a more efficient way.</p>	

The program is directed at a target population distinct from that currently served by traditional training. The beneficiaries are concentrated in the lower income deciles and among individuals with less than secondary education, with special emphasis on young women. This population suffers from special problems of integration in the labor market, and they are not the focus of any type of existing program. With regard to services, the intention is to institute activities that will facilitate quicker integration in the labor market. This, along with increasing the coverage of these services, will make it possible to establish formal networks to bring together labor supply and demand. In terms of job training activities, the goal is to introduce means of providing training services oriented to the demands of employers.

For SET, the project is an important opportunity to take a more active role in developing policy for training, modernizing labor regulations and stimulating employment, thus forging stronger links with employers and workers in the area of employment and competitiveness. Training providers will compete for funds under transparent criteria that link supply with demand, making training services compatible with cost efficiency criteria and with criteria meant to ensure that the courses meet the demands of the market. For the Bank, the project represents an opportunity to develop recommendations on public policy on the efficient functioning of the training sector. These recommendations will be based on empirical results, which can be fully verified at the conclusion of the program.

The program consists of the following components: (i) job training and counseling component (US\$14.1 million); (ii) labor modernization (US\$300,000); and (iii) institutional strengthening (US\$4.7 million).

The Bank's country and sector strategy:

This program is consistent with national and Bank strategies (GN-1958-1). The government's development strategy focuses essentially on (i) maintaining macroeconomic stability; (ii) reactivating productive sectors; and (iii) increasing social equity. The program is consonant with the government's strategy for increasing social equity, promoting human capital, and facilitating integration in the labor market.

The Bank's strategy for the job training sector (CP-1637) specifies in its general principles the inclusion of vulnerable groups in training activities. The program in turn reinforces

the need to assess different alternatives and programs in order to bring about changes in the existing labor supply and encourage the expansion of initiatives with the greatest impact and that are most cost efficient.

Environmental and social review:

CESI recommended that the social impact analysis play an integral part in the development of the project, and determined at its May 10 meeting that calls for bids for training courses and internships should include environmental factors, as well as standards on work safety and health, in accordance with international standards. These elements are included in the program's technical and operating regulations.

Benefits:

Work is the essential asset of the poorest population groups. To the extent that labor structure demand generates very low returns for the most disadvantaged workers, both unemployment and leaving the work force affect low-income groups. In this sense, underutilization of the work force is one of the fundamental problems faced by any strategy directed at overcoming poverty. Though overall as well as youth unemployment rates in the Dominican Republic are on par with average rates in the region, the participation rate in the work force is very low. Consequently, nonemployment rates significantly exceed rates in countries with similar conditions.

The impact of the program depends on the way in which activities such as short-term training courses, improvements in job counseling services, and labor intermediation change the structure of incentives and restrictions that these groups face and that result in nonemployment. It is anticipated that the beneficiaries will experience shorter terms of unemployment, longer employment periods and higher wages.

Risks:

Institutional and financial sustainability. The program seeks to establish a new mechanism for providing training services, which will also serve a different target population from that served today. The ability of the program to continue in the future will depend on its success in creating a consensus among the players in the sector on the need for changes in the way services are financed and provided. The project envisages independent impact assessment, so as to nurture a process of dialogue with the training sector on policy issues. The results of the assessments will not only make it possible to evaluate the impact of the program, but will also provide an important case study for the process of dialogue on improvements and reform to the training and employment system. SET will coordinate this dialogue, and participants will include the

system's main players: (i) in the private sector, (ii) private providers; and (iii) public providers (INFOTEP, technical institutes), among others.

Institutional ability to execute the program. The executing agency, SET, has not executed any program of this scope in the past, and it is therefore essential to provide support so that it can familiarize itself with the Bank's procedures. In order to enhance its ability to execute the program, a number of activities are anticipated, some in connection with the design and scope of the program, others involving collaboration during execution. The scope of the program has been adapted to increase the viability of execution. Similarly, the program design includes practical training workshops on project execution. The team, in conjunction with international consultants, will provide training for SET to enable it to set the program in motion. The strengthening activities are of various types. During the first three months of the program, there will be practical training specific to the execution of the program. During the following 15 months, there will be institutional strengthening work to enhance the ability of SET to analyze and develop policies and to establish an ongoing policy dialogue with the main players in the labor market.

Special contractual conditions:

Conditions precedent to the first disbursement

- (a) Evidence that the technical executing unit has been formed and that it has the staff agreed upon with the Bank (paragraph 3.20, Table III-2).
- (b) The form for the selection of beneficiaries has been submitted for the Bank's approval (paragraph 3.20, Table III-2).
- (c) The terms of reference for the outside evaluators of job training and counseling activities and the bidding documents for contracting outside evaluators have been submitted for the Bank's approval.
- (d) Evidence that consulting for the design of the data processing software has been carried out (paragraph 3.20, Table III-2).
- (e) Evidence that the campaign to publicize the training and modernization components of the program has been carried out (paragraph 3.20, Table III-2).

Poverty targeting and social classification:

This operation qualifies as a project targeted to reducing poverty and increasing social equity, as described in the key objectives for the Bank's activities contained in the report on the Eighth Replenishment.

Exceptions to Bank policy:

None

Procurement:

The program does not envisage civil works construction. Bank procedures will be followed for the procurement of related goods and services, paying for consulting services and contracting for courses. In order to streamline execution and taking into account the nature of the courses that will be contracted, it is recommended that (i) there be international competitive bidding in the case of contracts for courses costing more than US\$350,000 and for goods costing more than US\$200,000; (ii) that the Bank's prior approval be required only for contracts for courses costing more than US\$300,000, for services costing more than US\$25,000 in the case of individual consultants and US\$100,000 in the case of consulting firms, and for procurement of related goods and services costing more than US\$200,000. The relevant documents in situations involving less than the amounts indicated will be reviewed by ex post sampling. Independent of these provisions, and taking into account that this is the first time that this type of program is being executed in the country, it is recommended that the Bank review the documentation relating to the initial bidding processes for each of the categories mentioned above.

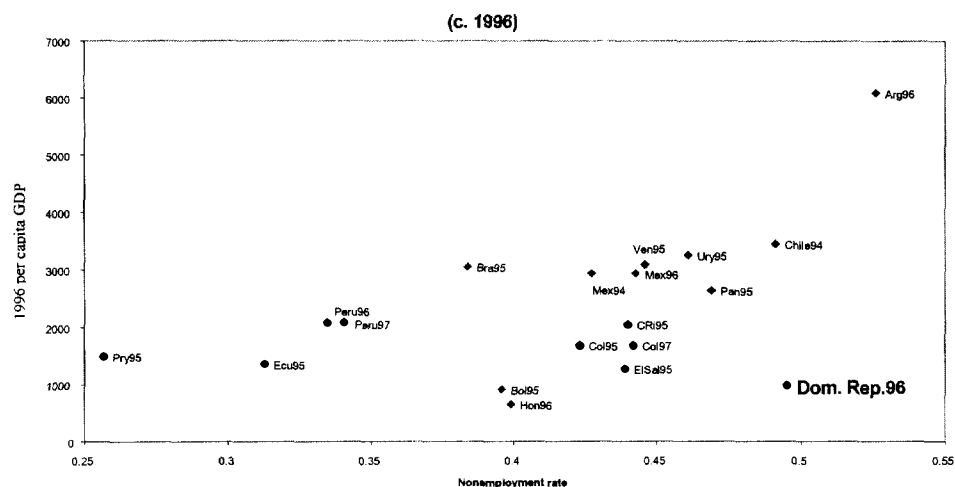
I. FRAME OF REFERENCE

A. The Dominican Republic's labor market

- 1.1 Since 1990, Dominican authorities have made great efforts to stabilize the economy. Specifically, public finance has been strengthened, expansion of credit and indiscriminate wage increases have been controlled, exchange rate, financial, and price distortions have been reduced, greater openness in the economy has been attained, and the country's financial relationships with foreign creditors have been normalized. Partially as a result of these changes, the country's economy was one of the fastest growing in the region in 1996 and 1997.
- 1.2 Nevertheless, the Dominican Republic still has a relatively low GDP, which strongly affects the welfare of the population. In 1996, nearly 56% of families were poor and 19% were indigent. Given the fact that work is the main asset of the poor, increased employment and productivity are crucial in any effort to reduce poverty.
- 1.3 The effectiveness of policies addressing the labor market is limited if the poor cannot make use of their ability to work, whether due to high unemployment or to a low rate of participation. This is the case in the Dominican Republic, where a very low proportion of the working age population has jobs. Indeed, the nonemployment rate is one of the highest in Latin America (Figure I-1).¹ Worse yet, this problem is concentrated in the poorest segment of the population. The last income quintile has a 63% nonemployment rate, while the two first income quintiles have an average rate of 40%. Two features of the labor market create high nonemployment rates: (i) a moderate but highly concentrated level of unemployment, and (ii) a very low rate of participation in the work force.

¹ The nonemployment rate measures both the effect of inactivity and the effect of unemployment. Inactivity has increasingly explained nonemployment in industrialized countries, especially for unskilled workers. See A.E. Green (1996) for a discussion of nonemployment in the European countries. Murphy and Topel (1997), in their analysis of inactivity in the United States, observe that most of the increase in nonemployment among less-skilled workers is explained by inactivity, not by unemployment.

Figure I-1: Nonemployment rates in Latin America and the Caribbean

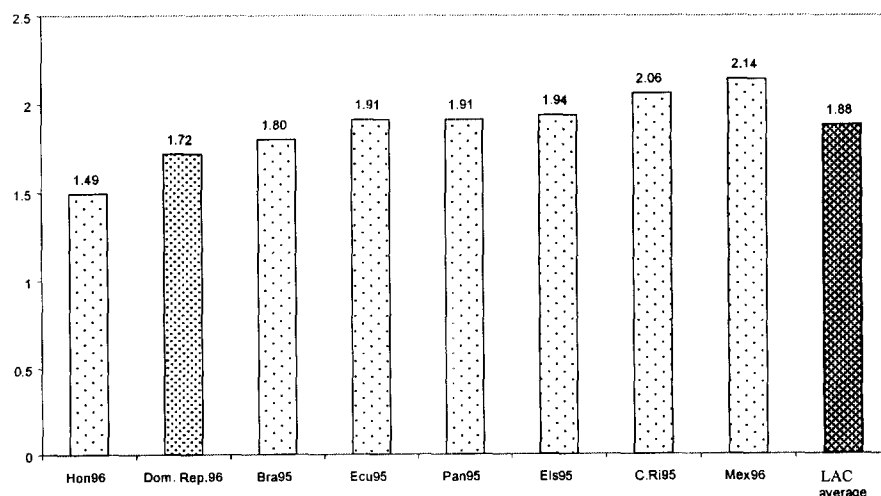


Source: OCE/IDB, based on data from household surveys.

1. Characteristics of unemployment

- 1.4 The country shows unemployment levels similar to the regional averages and of short duration. The unemployment rate was 6.5% in April 1997, with 82% of the unemployed having been unemployed for less than three months. Youth unemployment is higher than overall unemployment; however, this difference is less than the average for the region. The rate of youth unemployment to total unemployment in the Dominican Republic is 1.7, while the rate for the region is 1.9. This seems to indicate that youth unemployment is not a significant problem in the Dominican labor market and that the higher rates are due to the common problems of the difficulty which young people experience in becoming part of the labor market, resulting from lack of work experience and inadequate job-search techniques.

Figure I-2: Youth unemployment/total unemployment in LAC



Source: OCE/IDB, based on data from household surveys.

- 1.5 At the same time, the average duration of periods of unemployment is very short, even compared to other Latin American countries. In almost half the cases (45%) the unemployed period lasts less than one month, and 80% lasts less than three months. The situation is very similar for the poor population. The only workers who experience a longer duration of unemployment are those at the two extremes of the educational spectrum, i.e., those who are illiterate and those with higher education.
- 1.6 The short duration of unemployment indicates a labor market characterized by a rapid pace of job creation and loss. The small percentage of unemployed who have been without work for over six months suggests that there is high mobility in the labor market. However, the low participation rate may indicate that there is a significant and frequent movement from unemployment to inactivity, where those unemployed who have been without work for a time stop looking for work and leave the labor force.
- 1.7 It should be emphasized that unemployment is concentrated in specific populations. Even if the youth unemployment rate is moderate, the absolute number of unemployed young people is high, due to the country's demographic structure: half of the unemployed are under 25 years of age. Furthermore, the rate of unemployment among women is more than double the rate among men, and the rate among young women is even higher, with rates as high as 20%. As a result, although young women have a very low participation rate, they account for a quarter of all unemployed. Unemployment is also concentrated among the poorest population. The four poorest deciles represent more than half of all unemployed.

2. The phenomenon of low participation

- 1.8 The critical factor in the nonemployment problem is very low participation in the labor market. The participation rate in the Dominican Republic is the lowest in the region, even less than countries with a greater percentage of population over 60 years of age (Argentina and Uruguay) and greater than countries that receive comparable amounts of funds forwarded from family members abroad (El Salvador). Like unemployment, low participation has a significant gender dimension. The participation rate among women is low (33%), especially among young women (26%), and very low in the two poorest deciles (19%).
- 1.9 A significant percentage of the working age population does not work, but reports willingness and availability to work. This group is included in the official definition of unemployment, explaining the high unemployment rates ordinarily reported in the country. These "discouraged" workers² have depressed the participation rate in the labor market and are a determining factor in the high nonemployment rate.

² Gregory (1998) argues that the labor market is very efficient given the short duration of unemployment and the fact that workers in the informal sector receive wages similar to those of the formal sector with the same levels of schooling. He also observes that the number of domestic employees seems to be diminishing and that their salaries are rising. At the same time, income is not concentrated around the minimum wage in the formal sector, suggesting that these are not a limiting factor in terms of market equilibrium.

- 1.10 This group accounts for 5% of the working age population. The greater part of this group is made up of women (68%), and almost a third are women who have not completed primary school. The poor are disproportionately represented in the category of the discouraged (60%). Young people make up half of the discouraged poor, and most of these young people are women.

B. Factors associated with the low utilization of human capital

- 1.11 Both labor supply and demand contribute to this problem of low participation. On the supply side, insufficient development of human capital and very low productivity contrast with reservation wages artificially inflated by a high level of remittances from abroad as a source of income. On the demand side, it is plausible that labor legislation creates uncertainty for formal enterprises in hiring and firing of workers, thus reducing employment demand.
- 1.12 **Low educational level.** The working age population (WAP) shows a low level of human capital: the illiteracy rate is close to 18%, and the net secondary schooling rate is no more than 20%. Problems in the education system produce few skilled workers to meet the demands of a dynamic labor market. Recent advances in the education system do not directly benefit the population that has already moved out of the system. Therefore, other supplementary strategies are needed to increase the human capital of the working age population. Almost half of the WAP has not finished primary school, and this percentage is greater (60%) in the poorest WAP. Participation rates increase with educational level, especially in the female population. Similarly, there is a relationship between the discouraged population and the low formation of human capital. Among the discouraged, those who responded that they were not looking for work because they thought they would not find it are those with the lowest level of schooling.
- 1.13 **Impact of remittances from abroad.** It is estimated that in 1995 remittances were between US\$795 million and US\$1.14 billion, representing between 7% and 10% of the GDP. These transfers are an important source of income for households. The average monthly remittance per household received was RD\$2,527, an amount greater than any monthly minimum wage. Remittances constitute an average of 40% of total income in the households that receive them.

Table I-3: Relation between remittances and work situation						
	Participation rate		Unemployment rate		Discouraged as a % of WAP	
	Total	poorest 40%	Total	poorest 40%	Total	poorest 40%
Average rate	56	48	7	11	5	8
Remittances as % of total household income						
0	58	49	7	11	5	8
>0 to <5	67	58*	5	6*	2	6*
5 to <10	63	60	4	4*	5	6
10 to <25	59	54	7	8	5	6
25 to < 50	50	39	6	7	4	7
50 to <75	41	30	14	27	11	21
75 to 100	12	13	49	74*	12	13

Note: WAP is between 15 and 64 years of age.

* Contains insufficient sample to be representative.

Source: National Work Force Survey (2/96)

- 1.14 Our econometric analyses indicate a negative correlation between labor participation and household receipt of forwarded funds. Each additional percentage point of remittance (measured as a share of total household income) is associated with a reduction in participation of 0.44. For the average household, with a participation rate of 58%, participation would fall to 54% if remittances contribute 10% to total income. Considering that in the households that receive them remittances constitute on average almost 40% of total household income; households that receive remittances show a participation rate almost 18% below the average.
- 1.15 **Inflexibility of the regulatory framework.** With respect to labor demand, enterprises face high costs of job creation associated with high and uncertain firing costs, which restrict the flexibility of the labor market. In turn, the costs of extending the working day are relatively low, allowing enterprises to adjust production by increasing hours rather than jobs. This implies low job creation at times of expansion. Furthermore, there appears to be a practice on the part of enterprises in the formal sector to fire and rehire workers annually to avoid the accumulation of benefits. This practice is especially evident in enterprises in the free zone, which are exposed to variations in international demand. According to a study on layoffs in the Dominican Republic, approximately 60% of the enterprises in this sector engage in this type of practice. Rotation of personnel in this sector is substantially greater than in the rest of the economy.³

³ Defined as the population that neither has nor is looking for work, is not enrolled in an educational institution, and reports that it is available for work.

C. Supply of labor services

- 1.16 Evaluations carried out during the preparation of the project ⁴ show that existing training services serve a specific target group in a way that is not well oriented to demand.
- 1.17 **Training.** Studies show that training institutions plan and scale their programs in a traditional way, centering on pedagogic content and not on its relevance in the marketplace. Most of the institutions visited do not have systematic contact with enterprises, but rather a sporadic relationship. Close to 80% of graduates report that they have had no internship as part of their studies. The beneficiaries of these services tend to be men with more than a secondary education. More than 60% of students are men, and more than 50% have secondary technical education. Only 25% of services serve school-age young people who are not in school.
- 1.18 Data indicate that the population that opts for training has a low probability of not participating in the labor market. Some 85% of graduates were looking for work. However, the type of training received would not seem to increase the job possibilities of these young people, since 30% of those surveyed were unemployed. The duration of periods of unemployment for these people is similar to what it is in the labor market as a whole. More than 50% of graduates took a month to find work, and 87% took from one to three months.
- 1.19 **Job counseling.** Despite the fact that there is a relatively broad range of training services available, there is clearly a lack of other mechanisms for insertion in the labor market. Household surveys show that the majority of channels for job searches by the unemployed are informal. Follow-up studies on graduates of training courses show the same problem. The most common way of looking for work reported by graduates is through personal contacts and relatives.
- 1.20 The program addresses the needs of a target population distinct from that served today by traditional offerings. The beneficiaries are concentrated in the lower income deciles and among individuals with less than a secondary education, especially young women. The intention is to introduce programs that provide services in job training and placement oriented to private sector demand.

D. The Bank's country and sector strategy

- 1.21 This program is consistent with the strategies of the country and the Bank (GN-1958-1). The government's basic development strategy is focused on (i) maintaining macroeconomic stability; (ii) reactivating the productive sectors; and (iii) increasing social equity. The program is consonant with the government's

⁴ In 1997, the free zones sector still employed 7% of the working population and represented 16% of total hiring of permanent personnel and 22% of total job terminations.

strategy for increasing social equity, promoting human capital, and facilitating insertion in the labor market.

- 1.22 The Bank's strategy for the job training sector (CP-1637) identifies, within its general principles, the inclusion of vulnerable groups in training activities. The program in turn reinforces the need to assess different alternatives and programs in such a way as to produce change in the existing labor supply and encourage the expansion of those initiatives that have the greatest impact and are most cost efficient.

II. THE PROGRAM, ITS COST AND FINANCING

A. General program description

- 2.1 The Dominican Republic's labor market is characterized by low participation, short-term unemployment, and highly informal job-search networks. The principle objective of the project, to increase the employability of its beneficiaries, will be met insofar as SET and the job and training services it coordinates become more effective, bringing together labor supply and demand more efficiently.
- 2.2 The program is directed at a target population distinct from that currently served by traditional training. The beneficiaries are concentrated in the lower income deciles and among individuals with less than secondary education, especially young women. This population suffers from special problems of integration in the labor market, and there is no type of program that focuses on them. In relation to services, the intention is to put activities in place that will aid in quicker integration in the labor market. This, along with increasing the coverage of these services, will make it possible to establish formal networks to bring together labor supply and demand. As to job training activities, the intention is to introduce training services oriented to the demand from employers.
- 2.3 For SET, the project is an important opportunity to take a more active role in developing policies for training, modernizing labor regulations and stimulating employment, thus forging stronger links with employers and workers in terms of employment and competitiveness. Training providers will compete for funds under transparent criteria that link supply with demand, making training services compatible with criteria that ensure that the courses are cost efficient and meet the demands of the market. For the Bank, the project represents an opportunity to establish recommendations on public policy in relation to the efficient functioning of the training services sector. These recommendations will be based on empirical results, fully demonstrable at the conclusion of the program.

B. Objectives

- 2.4 The principle objective of the program is to increase the employability of the lowest income deciles of the working age population. The program will increase opportunities for access to the labor market through work training and counseling and modernization of the Dominican Republic's regulatory framework on labor. The specific objectives are to: (i) increase employment opportunities for the low-income population, adapting the supply of training to the labor demands of employers; (ii) evaluate the effectiveness of different job and training programs; (iii) establish an ongoing dialogue on policies for modernization of the labor market; and (iv) strengthen SET in order to increase the effectiveness of its policies and programs.

C. Components

- 2.5 To fulfil the above-mentioned objectives, the program includes execution of components on job training and counseling, labor modernization and institutional strengthening of SET, which are described below.

1. Job training and counseling component (US\$14.1 million)

- 2.6 This component will contribute to increasing the productivity and employability of individuals facing unemployment, under-employment, or processes of restructuring of production. The National Work Force Survey (February 1996) shows that of the population in the last four deciles of the income distribution, approximately 76,000 individuals were in open-ended unemployment situations and had not completed secondary education. If individuals who are interested in working but are not actively looking are added to this figure, the total would reach approximately 190,000 individuals who potentially would be users of some type of service to increase their employability.
- 2.7 Job training and counseling activities are interrelated for the purposes of (i) introducing and evaluating alternative employment and/or training programs, (ii) succeeding in establishing a consolidated system of job referrals. This component is made up of the following activities:

(i) Job training (US\$9.6 million)

- 2.8 Funding will be provided for approximately 1,500 courses, in types of work that are in demand by employers, and these are expected to serve approximately 37,500 beneficiaries. Given the low educational level of the target population, the courses will include the basic skills needed for the work in question. This group of courses will include (i) courses in the jobs and specialized areas that have been most in demand by the country's employers in recent years;⁵ and (ii) courses for which the employers' needs demand specific technical or management skills. While the first group of courses will be predesigned, the second will require the training institutions to design them on a case-by-case basis.
- 2.9 The courses will have two phases:⁶ training and internships.⁷ The maximum duration of the training phase will be 350 hours and the minimum 150 hours. The internship phase will provide work experience for the beneficiaries and will last two months with six- to eight-hour days. The training institutions will conduct follow-up on the

⁵ These include jobs related to farming, restaurants, computers, accounting, electrical work, electronics, mechanics, furniture making, baking, refrigeration, confectionery, welding and sales.

⁶ These phases may be done successively or in alternation, according to the nature of the activity.

⁷ Internships will be considered "traineeships for students" pursuant to Article 255 of the Labor Code.

practical experience of the interns and provide technical assistance to those overseeing the internships through periodic visits to the enterprises.

- 2.10 The project will also fund the financial costs for the participants, such as transportation, stipends, accident and medical insurance. The subsidy will always be less than the average wage that the poorest 40% of the population is currently earning in the job market, so as not to create undesirable incentives.
- 2.11 The individual selection of the beneficiaries of both the training and the job counseling activities will be carried out using the Registration and Selection of Beneficiaries form, which measures conditions of poverty and other social and work conditions, shown in Table II-1. A register of potential program beneficiaries will thus be created, from which the final list of beneficiaries and the control groups for evaluation will be created.

Table II-1. Indicators for program eligibility	
Unit of measurement	Indicators
Family: Conditions of Poverty	Housing conditions, total per capita family income
Beneficiary: Individual Characteristics	Age, educational level, job status

(ii) Job counseling (US\$3 million)

- 2.12 SET's current activities in terms of job placement programs are limited to the "employment exchange" program. This program only operates in the city of Santo Domingo and has fairly limited coverage at this point. Despite these limitations, the program has demonstrated that there is a demand for these types of services. The program proposed here will fund the automating and expansion of coverage of labor intermediation services.
- 2.13 To improve intermediation, counseling and training, SET's network of services will be strengthened through its regional offices and by contracting for private services to complement SET's activities. During program execution approximately 100,000 individuals are expected to benefit from the above-mentioned services.
- 2.14 Technical assistance will be provided to participating public and private employment services through (i) development of software for the registration of beneficiaries, (ii) contracting for consulting services on management, planning and monitoring of program execution and follow-up systems; (iii) training courses for employment office personnel on organization and methods of supervision and monitoring; and (iv) procurement of work and study materials, instruction manuals and guides, and computer systems and software for monitoring of activities. These activities will help to form and consolidate a national network of employment offices to ensure that services are ongoing.

(iii) Evaluation and follow-up (US\$1.5 million)

- 2.15 The object of the evaluation is to determine the effectiveness of the job training activities in relation to (i) reducing unemployment periods, (ii) increasing the duration of employment, and (iii) increasing the income of the beneficiaries. The counseling activities seek to (i) reduce periods of unemployment and (ii) increase income. The relative cost efficiency of the two types of intervention is also to be assessed. Evaluation will be independent of SET. The registration and selection system will ensure that participants in training and counseling activities belong to the target population defined in the program, and therefore that they are homogeneous in terms of their characteristics. The system will have software that will assign the potential beneficiaries to the training and counseling activities randomly, guaranteeing the validity of the comparative evaluation of the two activities. The software designed for the program will include this random assignment of the beneficiaries.
- 2.16 The conducting of longitudinal surveys on the second, fourth, and sixth groups that receive job training and counseling services and on a corresponding control group each year during the execution of the program will be funded. A general survey will also be carried out to provide a baseline, so that factors related to the demand for the program's services can be identified. The analysis of the information will make it possible to establish an informed sectoral dialogue on the effectiveness of training and employment programs in such a way as to lead to innovations in current and future programs of a similar nature.
- 2.17 The program includes consulting services to support execution of activities related to the selection of beneficiaries, conduct surveys and follow-up systems, as well as develop the analysis of data deriving from the longitudinal studies. The impact assessments will be carried out by international experts, and the results will be disseminated in seminars, workshops, and publications included in the funding.

2. Labor modernization component (US\$300,000)

- 2.18 The Labor Code currently in force (1992) envisages a series of payments to workers in cases of termination or suspension of a contract, dismissal, and dismissal for cause, tending to increase labor costs for enterprises and reduce the flexibility of the labor market. To cover these payments, enterprises include in their accounting an annual estimate of the necessary funds, which are not actually available in all cases.
- 2.19 Articles 465 and 466 provide for guaranteed payment of wages to workers in case of insolvency of an employer and/or financing of court-ordered indemnification. The Code provides that the guarantee may take the form of a bond which the employer purchases from an insurance company. This system has not yet been implemented.
- 2.20 This component will provide funding for regulation in connection with the above-mentioned articles, so that the amount of such bond is specified, along with the scope of the circumstances covered and other features of the contract between employer and worker. The Dominican Republic's insurance sector is believed to be sufficiently

developed to have the institutional capability to administer a system such as the one proposed. SET would be responsible for regulating and supervising the operation of the new system, and the Superintendency of Insurance would authorize insurers to offer this type of guarantee, determine the amount of reserves needed, and audit the financial aspects of the system.

- 2.21 For these purposes, consulting services would be hired to develop, process, and implement new regulations in connection with Articles 465 and 466 and conduct studies on the costs of the guarantee of labor credits. Technical assistance includes the studies, internal workshops, and public seminars for which technical experts will be responsible.

3. Institutional strengthening component (US\$4.7 million)

- 2.22 **Strengthening of SET (US\$2.5 million).** SET faces serious limitations in exercising regulatory and policy-making functions with the required efficiency and flexibility. The most acute problems are (i) lack of clarity in defining the functions of the units that make up its internal structure, thus leading to duplication of activity; (ii) lack of functional communication between the key units; and (iii) obsolescent management systems, standards, and procedures in regard to efficiency of service.
- 2.23 During the preparation of the program, a detailed analysis of the institution was carried out. The institutional strengthening plan is the result of that study, which identifies the following goals to be met during the first year-and-a-half of the program's execution: (i) redesign and implementation of a new operational structure at SET; (ii) reengineering of the most important administrative/management procedures; and (iii) design of an integrated information services center.
- 2.24 The program will fund technical assistance in information systems, reengineering of procedures, document management, and organizational design. Training courses in planning and monitoring of procedures, information systems, computer skills, automation of offices, organization of documents, auditing, and financial management will also be funded. Finally, technical equipment and systems will be purchased, along with other materials and inputs. All of the activities financed will be carried out in accordance with the program's operational guidelines, which include the terms of reference established during the preparation of the operation.
- 2.25 **Program administration and monitoring (US\$2.2 million).** The executing agency, SET, will be supported by a technical executing unit, which will report directly to the Secretary and will be responsible for the project's technical activities and operations. The project includes technical assistance to fund short- and long-term consultants in order to ensure the technical quality of project execution.

D. Cost and financing

- 2.26 Table II-2 shows the breakdown of program costs by source and investment category.

Table II-2. Cost and financing (in US\$ millions)			
Categories	IDB	Local	Total
1. Work training and counseling	12.7	1.4	14.1
1.1 Training			9.6
Courses	8.2		8.2
Stipends		1.4	1.4
1.2 Counseling	3.0		3.0
1.3 Evaluation	1.5		1.5
2. Labor modernization			0.3
3. Institutional strengthening	2.1	2.6	4.7
3.1 Reengineering of SET	1.5	1.0	2.5
3.2 Administration and monitoring	0.6	1.6	2.2
4. Audit	0.3		0.3
Subtotal	15.4	4.0	19.4
5. Financing costs			1.7
5.1 Interest	1.3		1.3
5.2 Inspection and supervision fee	0.2		0.2
5.3 Credit fee		0.2	0.2
Total	16.9	4.2	21.1
Percentage	80%	20%	100%

- 2.27 Total cost is estimated at US\$21.1 million, shown in detail in Table II-2, and made up of (i) US\$16.9 million from the Bank through the Single Currency Facility and ordinary capital (OC) in US dollars and (ii) US\$4.2 million from the Government of the Dominican Republic. The total amount of the loan, US\$16.9 million, will be eligible for financing from the Intermediate Financing Facility (IFF). Since the program qualifies as a poverty-targeting investment, 10 additional percentage points will be applied to the financing from the Bank. Likewise, US\$180,000 for inspection and supervision and US\$2.3 million in interest will be included and charged to the loan. Considering that approximately 70% of the IDB funding is for training courses and job counseling activities that are necessary in order to increase the employability of poor beneficiaries, any transfer of these funds to other categories or subcategories of the program would constitute a substantial change in the program's objective. The loan conditions are detailed below.

Table II-3. Terms of financing	
Source of financing	Ordinary Capital (OC)
Currency	US\$ Single Currency Facility
Terms:	
Amortization period	25 years
Grace Period	5.5 years
Disbursement Period	4.5 years
Interest rate	Variable (IFF)
Inspection and supervision	1% of loan total
Credit fee	0.75% of the undisbursed balance

III. INSTITUTIONAL FRAMEWORK AND PROGRAM EXECUTION

A. The borrower, the guarantor, and the executing agency

- 3.1 The borrower and guarantor of the loan will be the Government of the Dominican Republic. The executing agency will be the Ministry of Labor (SET).

B. Execution and disbursement period

- 3.2 The execution period will be four years and the disbursement period for the funds will be 4.5 years, both of these terms counting from the time the loan contract enters into effect.

C. Basic scheme of execution

- 3.3 The basic scheme of execution has been designed in such a way that activities are to be divided between SET and the institutions providing training, counseling, and labor intermediation services in the country. In this context, SET will be responsible for: (i) carrying out a public information campaign to publicize the program and the requirements for participating in it; (ii) keeping records of potential beneficiaries and their work interests; (iii) increasing the demand among individuals for training; (iv) calling for bids so that training institutes can determine if there is demand by employers and make proposals for the training services that they would offer; (v) assigning interested individuals to training or counseling programs; and (vi) conducting follow-up on the individuals involved. The training service providers, in turn, will be responsible for designing and conducting courses in close collaboration with employers, as well as for supervising and monitoring the students and providing follow-up on graduates.
- 3.4 The executing agency will manage the project through a technical executing unit directly connected with the Ministry of Labor. This unit will be responsible for (i) administering and supervising the development of the components; (ii) managing the disbursements from the Bank and the local counterpart; (iii) supervising the development of the data base, records, and files; (iv) hiring consultants; (v) coordinating the public information campaign; (vi) designing, preparing, and processing the paperwork for bidding on goods and services; and (vii) preparing the program's follow-up reports. To maintain the necessary physical-financial coordination of the program, the unit will coordinate its activities with SET's other divisions.
- 3.5 The unit's administrative personnel will be made up of seven professionals and three employees serving as support staff, as follows: (i) a general coordinator, in charge of overall supervision of the project and responsible for coordinating development of discussion and studies of component II; (ii) three professionals for the execution of component I in relation to counseling and training activities; (iii) one professional for the institutional strengthening component; (iv) one accountant, (v) one accounting

assistant; and (vi) three people to serve as support staff. In carrying out its functions, the technical executing unit will have support from SET's specialized units and from experts hired for specific technical work. The hiring of professionals for the technical executing unit will be conducted through a competitive process based on the background of the candidates and must have the Bank's nonobjection.

D. Provisions governing execution

- 3.6 The program will be executed according to the provisions agreed upon in the prospective loan contract and in the criteria and guidelines contained in the technical handbook for execution, the main elements of which are detailed below:

1. Beneficiaries and subsidies

- 3.7 The beneficiaries of the program will be those who belong to the target population indicated in paragraph 2.2, and they will be selected in accordance with the beneficiary registration and selection form (Table II-1). Beneficiaries of the training activities will receive a grant for transportation and refreshments and there will be a subsidy for women with young children. In both cases payment will be per day of attendance. Beneficiaries may receive up to US\$2 per day, up to a monthly maximum of US\$44. The program will also pay for preliminary medical checkups for each beneficiary, as well as for accident insurance during the internships. The total subsidy amount was calculated taking into consideration the average salary of the 40% of the population in the lowest part of the income distribution. This average is US\$120 per month, thus the subsidy will be no more than half of this salary. In both phases, 90% attendance will be required.
- 3.8 **Registration and selection of beneficiaries.** The technical executing unit (TEU) will be responsible for disseminating information about the program, its training and counseling activities, its objectives, criteria for accessing the program, and instructions on enrollment, in order to ensure that the procedures are transparent. The gathering and processing of personal information from interested individuals as well as the final selection of beneficiaries will be conducted at employment offices and at the TEU with the use of software. The process of gathering personal information from interested parties will be carried out at accredited public and private employment offices, and the information will be verified by home visits to a random 10% of applicants. Processing of the information will also be carried out at employment offices (public and private) with technical support from the TEU. The two processes will result in a general roster of potential beneficiaries who meet all of the eligibility requirements for the program. This roster will be used by the TEU to make up a final list of beneficiaries to be assigned to training courses and job counseling on a random basis, as well as for control groups. The software is designed to automatically draw up the final list of beneficiaries by selecting the first of each ten beneficiaries who sign up. The registration and selection form constitutes the main basis on which the software will be developed.

2. Course administration and contracts

- 3.9 **Administration.** The maximum duration of the training phase is to be 350 hours, and the minimum 150 hours, with activities to be carried out on the basis of five four-hour days per week at a minimum. In the internship phase, the beneficiaries will acquire experience in the workplace, performing jobs at the enterprises that coincide with the jobs they have been trained for. The internships are to last two months and involve six- to eight-hour work days. The training institution is to conduct a follow-up on experience of the interns and will provide technical assistance for those overseeing internships through periodic visits to the enterprises. In addition, the training institutions will hold bimonthly working meetings with the group of beneficiaries to evaluate the activities and will conduct a follow-up of graduates.
- 3.10 **Contracting.** Contracts will be made for the design of the courses, pursuant to Bank procedures for contracting of services, and contracts with the training institutions for the courses will be made pursuant to the procedures that appear as Annex D of the loan contract. Said Annex D replaces the term "product" [*bien*] with the term "course," which will make it possible to choose the best course offerings based on quality and price.
- 3.11 While it would be possible to use the course designs that have been most successful in the market, the technical proposals should take into account the validity of the proposed course design from the employers' standpoint.

3. Timetable of investments

- 3.12 The following table contains the amount of funds to be invested, by funding source, during the four years of the program's execution.

Table III-1. Timetable of investments				
Source of financing	First year	Second year	Third year	Fourth year
IDB	3.4	4.2	5.0	2.9
Local	0.9	1.1	1.2	0.7
Totals (US\$ millions)	4.3	5.3	6.2	3.6

4. Measures for increasing flexibility

- 3.13 To facilitate program execution, it is suggested that the following measures be taken to provide more flexibility in the rules governing administration of operations whose supervision is overseen by COF/CDR.

Table III-2. Measures for increasing administrative flexibility		
Rule	Description	Proposed application
GS-307 and GS-401	Information system	Contracts between SET and the training institutions that win bids for courses will be recorded in the Bank's information system as a single operation for each bidding process, with indication of the number of institutions participating.
GS-103	Submission of challenges	Considering the variety of courses on which bids are to be made, in each round of bidding and the fact that in each round different types of courses will be awarded to different training institutions, any type of challenge submitted by an institution in relation to the evaluation of its proposal shall not delay the awarding of other unrelated courses.
GS-307	Awarding of bids and signing of the contract	Bank approval: Bids will be awarded to the bidder or bidders whose proposals have been judged best and most responsive to the objective as stated in the bid documents. The executing agency will make available to the Bank on a continuing basis the pertinent documents so that the Bank can review them on a sample basis at the end of the bidding process and determine eligibility for Bank funding. Signing of the contract: The bidding agency will send the Bank the list of contracts that have been signed and will keep copies of them available for the Bank.
OA-550	Disbursements. Required documentation	The executing agency will keep and make available to the Bank receipts for expenditures charged to the funds so that the Bank can review them on a sample basis.

E. Follow-up and evaluation of progress

- 3.14 **Follow-up.** The executing agency will prepare and submit to the Bank for its consideration follow-up reports within the first 60 days of the relevant year of execution, in accordance with the guidelines in the logical framework that appears in Annex I, to serve, also, a basis for annual review. These reports will, among other things, examine the status of program execution and will measure variables such as: (i) **employment status:** search time, income, and level of formality of employment among graduates and beneficiaries of counseling, in comparison with a control group; (ii) **support for job searches:** functioning of the employment offices associated with the project, a breakdown of cases handled, categorized by number, type, province, solutions provided, and type of counseling, among other factors; (iii) **SET:** efficiency of SET in carrying out modernization; and (iv) **labor modernization:** progress in the national dialogue on labor modernization with respect to Articles 465 and 466 of the Labor Code.
- 3.15 **Evaluation.** Program evaluations will be conducted by independent agents and will measure the efficiency and impact of the program's activities according to the criteria

set forth during the preparation of the project. For these evaluations, sample groups of beneficiaries will be chosen for both job training and job counseling activities and compared to corresponding control groups. The first evaluation report will be delivered 18 months after the first two groups have been trained by the program. The second and final report will be delivered 18 months after all of the program's beneficiaries have been trained. The results of the evaluations will be disseminated through workshops and seminars in such a way as to stimulate dialogue in the training sector.

F. Other elements of execution

1. Recognition of expenditures and retroactive funding

- 3.16 The executing agency incurred expenses of US\$25,000 in carrying out a course on project management with participation by deputy directors, directors, undersecretaries and the Secretary of SET. The course followed the guidelines of the institutional strengthening plan envisaged for SET, and procedures similar to the program procedures were followed in contracting for it. Thus, it is recommended that an amount of US\$25,000 for the management course be recognized and charged to the program funds. Expenses incurred from September 31, 1998, will be recognized.

2. Procurement of goods and services

- 3.17 The program does not envisage construction of civil works. Bank procedures will be followed to purchase related goods and services and to contract for consulting services and courses. In order to streamline execution, and considering the nature of the courses to be contracted, it is recommended that (i) international competitive bidding be conducted for course contracts of more than US\$350,000 and for procurement of goods of more than US\$200,000; (ii) prior Bank approval only be required for course contracts of more than US\$300,000, service contracts of more than US\$25,000 for individual consultants and US\$100,000 for consulting firms, and for purchases of related goods and services of more than US\$200,000. Pertinent documentation of cases less than the indicated amounts will be reviewed by sampling on an ex-post basis.
- 3.18 Independent of these provisions, and taking into account that this is the first time that this type of program has been executed in the country, it is recommended that the Bank review documentation of the initial bidding processes for each of the categories indicated above.

3. Audits

- 3.19 The TEU will establish and maintain proper accounts and records in accordance with acceptable accounting practices. The reports will be produced at the end of each fiscal year by a firm of independent auditors acceptable to the Bank. They are to be submitted starting in the first year and during the entire period of program execution. Payment of the annual audits will be charged to the project.

4. Conditions precedent to the first disbursement

- 3.20 Special conditions precedent to the first disbursement of funds appear in the following table and are intended to facilitate the timely execution of activities envisaged in the execution of the program. The instruments selected were designed during the preparation of the program and were discussed with the executing agency during that phase.

Table III-4. Special conditions precedent to the first disbursement		
Condition	Deadline	Means of verification
SET has established the TEU and appointed its staff	2 months	SET resolutions creating TEU and appointing its staff
Beneficiary registration and selection form	2 months	Form approved by SET and approval of resolution putting it in force
The terms of reference for external evaluation of the job training and counseling activities, and tender documents for commissioning the external evaluation, are submitted for the Bank's clearance	2 months	Terms of reference and tender documents
Design of software for processing of data from the registration form and selection of beneficiaries and use of application	3 months	Software designed and tested
Prepare publicity campaign for the job training and modernization components at national level	4 months	Document describing campaign, proof of media used for publicity and coverage achieved

5. Revolving Fund

- 3.21 It is recommended that a revolving fund be established with the equivalent of 5% of the funding during the execution of the program. It is also recommended that the executing agency keep available for the Bank's review receipts of expenditures charged to the funds. The loan contract will also contain the Bank's standard clauses on land and rights of way, accounting and audits, and inspection and supervision.

6. Disbursements to launch program activities

- 3.22 It is recommended that the Bank, after the contract is signed and before the conditions for the first disbursement are fulfilled, disburse up to the amount of US\$617,000 of the funding to launch those program activities related to the special conditions and for initial TEU staff hiring.

IV. BENEFITS, BENEFICIARIES, AND RISKS

A. Benefits and beneficiaries

- 4.1 Work is the basic asset of the poorest segments of the population. To the extent that the structure of the labor demand generates very low returns for the most disadvantaged workers, both unemployment and leaving the work force affect low-income groups. Thus the failure to utilize the work force is one of the basic problems that any strategy for overcoming poverty must deal with. Though the overall and youth employment rates in the Dominican Republic are comparable to the regional average, the participation rate in the work force is very low. As a result, the nonemployment rates are substantially greater than in countries with similar conditions.
- 4.2 The impact of the program depends on the way in which the activities that are to be carried out, such as short-term training courses and improvements in job counseling, and labor intermediation services, alter the structure of incentives and limitations that these groups face and that result in situations of nonemployment. Two subgroups can be distinguished here among the potential beneficiaries of the program: (i) discouraged workers who are available for work; and (ii) unemployed workers. The make-up of these groups differs in gender and education, as well as in the type of incentives and limitations they face.

Table IV-1. Distribution of the WAP by status in the work force					
Status in work force	Thousands of persons	% of working age population	% of women	Years of education (last year completed)	
				Men	Women
Entire population					
Employed	2,275.0	52.2	28.5%	7.74	9.08
Unemployed	173.5	3.98	51.6%	8.17	8.76
Discouraged	235.9	5.41	68.0%	7.35	7.18
Inactive	1,677.4	38.46	79.2%	8.37	7.17
Poorest 40%					
Employed	749.4	42.23	24.3%	6.00	6.90
Unemployed	93.8	5.3	48.5%	6.93	7.74
Discouraged	144.0	8.12	68.2%	6.76	6.45
Inactive	786.0	44.3	79.6%	7.28	6.29

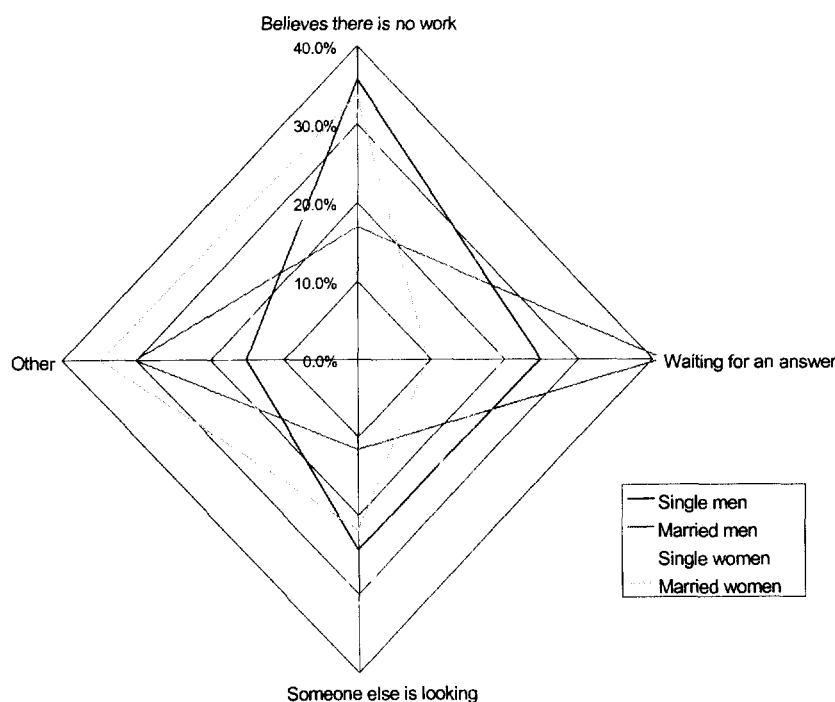
- 4.3 Among the poorest 40% of the population, women represent approximately half of the unemployed but more than two thirds of the discouraged population. Among those participating in the work force, the unemployed are those with the highest educational level, while the discouraged tend to have less education. This suggests that the participation pattern is associated with the availability of human capital (scarce in the case of the discouraged, who withdraw from the work force even when

they are available to work), while the unemployment pattern is more associated with friction in job creation and loss of jobs in the economy.

1. Discouraged workers

- 4.4 Approximately one third of the discouraged workers of the poorest 40% of the population reports, as the reason for not seeking work, a belief that there is no work, while the next largest group consists of individuals who report that they are "waiting for an answer" and "someone else is looking." Married men are the exception to this rule, with one third reporting that they are "waiting for an answer." While the response "waiting for an answer" and "somebody else is looking" reflect some degree of utilization of social capital (in the form of social support networks for finding jobs), the response "believes there is no work" suggests the absence of this asset for this group.

Figure IV-1. Discouraged workers among the poorest 40%; reasons for not seeking work by gender and marital status



Source: ad hoc presentation based on household surveys (BCRD, 1996)

- 4.5 Those who report "believe there is no work" as a reason for being outside the work force are also those with the lowest educational level among discouraged workers available for work (which group itself has a lower educational level than the level for the work force as a whole). This suggests that a deficiency of human capital in this group results in very low productivity, which translates into a market wage, net of search costs, that is lower than their reservation wage, which would be the equivalent of the consumer value of activities outside the market.

Table IV-2. Discouraged workers, last year of education completed, broken down by reason for not seeking work				
	All deciles		Four poorest deciles	
	Men	Women	Men	Women
Number (expanded)	75,533	160,357	45,752	98,234
Average education	7.35	7.18	6.76	6.45
Percentage who are single	82.3%	58.1%	79.7%	59.0%
Reason for not seeking work	Years of education (average by group)			
Believe there is no work	6.1	6.8	5.4	6.2
Waiting for an answer	8.2	7.9	7.8	6.0
Someone else is looking	7.8	7.9	6.9	7.6
Other	6.9	7.0	6.9	6.5

Source: ad hoc presentation, based on data from household surveys (BCRD, 1996)

Includes individuals not seeking employment but who would accept employment and are available to work (excluding those who are ill or registered in an educational program)

- 4.6 It is expected that short-term training courses, along with learning basic skills, will contribute to increased productivity among the students and hence to increased wages. The improvement of labor intermediation activities will tend to reduce the cost of job searches. Together, the two actions are expected to result in an increase in anticipated wages, net of search costs.
- 4.7 The impacts anticipated for this group of beneficiaries are that (i) their participation in the program will lead to an increase in their of participation rate in the labor market in comparison with the control group; (ii) the period of time spent in looking for a job will be less for beneficiaries of the program than for the control group; and (iii) the average salary of program beneficiaries will be greater than in the control group.

2. Unemployed workers

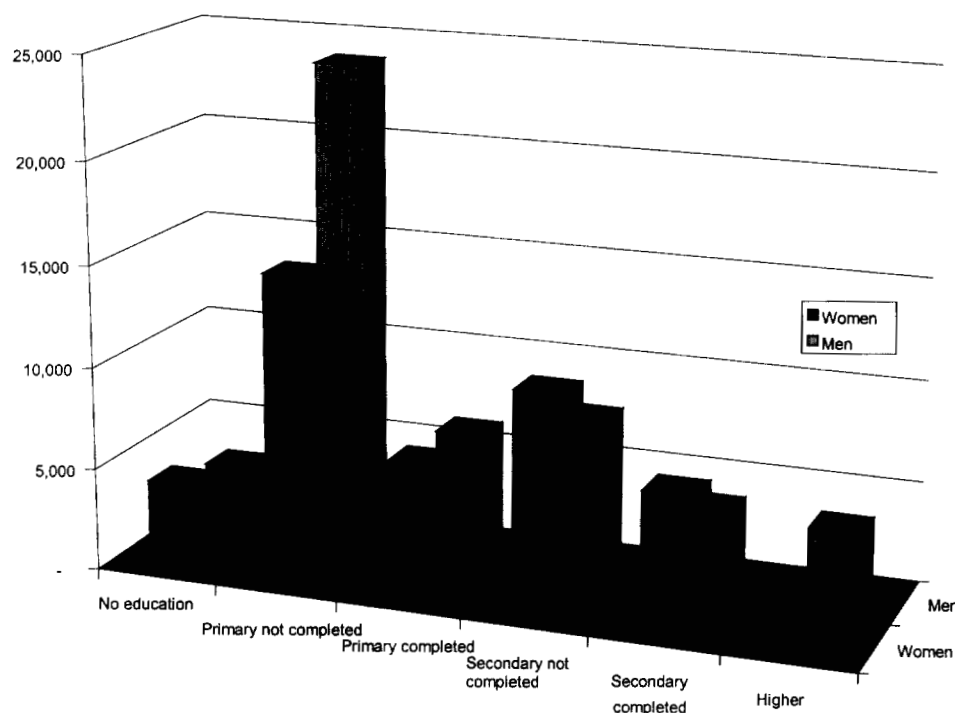
- 4.8 In the four poorest deciles, women represent approximately one fourth of total jobs but account for almost half the number of unemployed. Hence, the unemployment rate is much greater among women (20%) than among men (7.8%). The incidence of unemployment rises with educational level, except for a small dip for workers of both sexes who have completed secondary school.

Table IV-3. Unemployed workers, basic information				
	All deciles		Four poorest deciles	
	Men	Women	Men	Women
Number (expanded)	84,047	89,460	48,248	45,508
Average education	8.17	8.76	6.93	7.74
% who are single	69%	65%	60%	67%
Unemployment rates by educational level				
No education	2.7%	12.0%	3.8%	15.9%
Primary not completed	4.9%	11.9%	7.9%	16.7%
Primary completed	4.9%	14.9%	8.4%	25.8%
Secondary not completed	5.1%	15%	8.8%	24.2%
Secondary completed	6.0%	12.2%	7.1%	20.3%
Higher	5.1%	8.4%	16.3%	24.3%
All groups	4.9%	12.1%	7.8%	20.0%

Source: ad hoc presentation, based on data from household surveys (BCRD, 1996)

- 4.9 Despite the higher incidence of unemployment among women, the distribution of the number of unemployed in the four poorest deciles is more equal across gender. The greatest numbers of unemployed are concentrated in groups without education and who have not finished primary school, accounting for 56% and 42% of unemployed men and women, respectively. Thus, the focus of the program's activities on the group of workers who have not completed primary school is justified in terms of the number of workers reached, despite the fact that the unemployment rates in this group are not the highest.

Figure IV-2. Number of unemployed by educational level and gender in the four poorest deciles.



Source: ad hoc presentation, based on data from household surveys (BCRD, 1996)

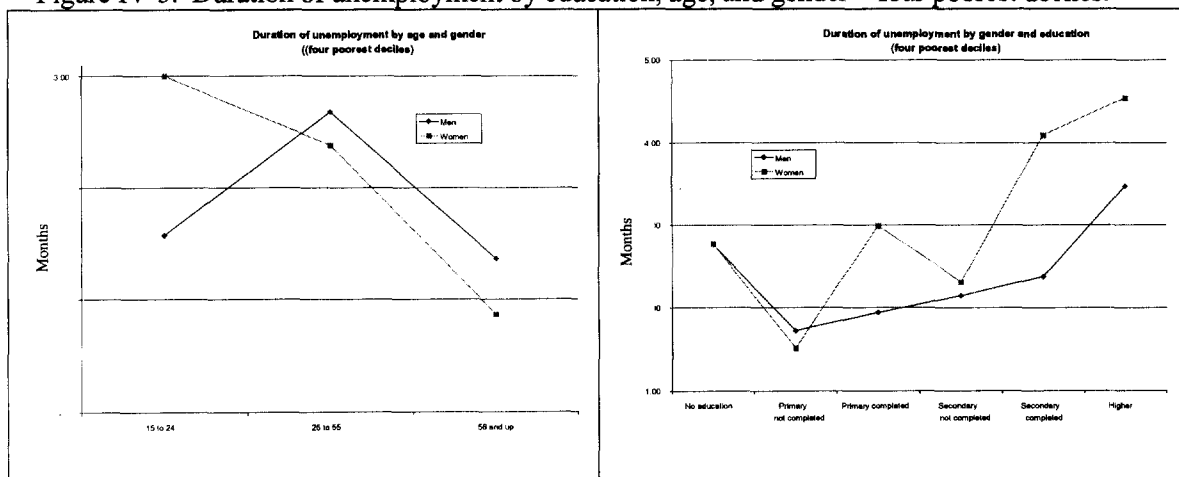
- 4.10 The duration of unemployment is very low for both sexes. Slightly above 80% of unemployment periods end before three months has elapsed, and long-term unemployment rates (periods of over one year) are very low. This is common in the countries of the region, where the process of job creation and loss is very active (extremely high rates of job starts and of exit from the ranks of the unemployed).

Table IV-4. Duration of unemployment by gender				
	All deciles		Four poorest deciles	
	Men	Women	Men	Women
Up to 1 month	45.4%	43.8%	50%	43.3%
1 to 3 months	37.2%	40.5%	33.4%	37.7%
3 to 6 months	11%	7.2%	10.2%	8.1%
6 months to 1 year	3.3%	5%	3.5%	5%
Over 1 year	3%	3.5%	3%	5.9%

Source: ad hoc presentation, based on data from household surveys (BCRD, 1996)

- 4.11 Limiting our analysis to the four poorest deciles, young women (15 to 24 years old) experience relatively lengthy periods, which suggests problems of insertion in the job market for women without work experience. Duration of unemployment for women and men between 25 and 64 years of age are very similar and are short. Further, the pattern of duration by educational level is very similar across gender, with slightly longer duration for women who have primary school or higher education. It is possible that the similarity of duration across gender derives from a different pattern for moving between unemployment, employment, and inactivity. However, it is impossible from available information to identify the flows between these conditions, which presumably are quite different for men and women.

Figure IV-3. Duration of unemployment by education, age, and gender – four poorest deciles.



Source: ad hoc presentation, based on data from household surveys (BCRD, 1996)

- 4.12 The unemployment information that we have suggests that the program's activities should focus on the young unemployed, and, within that group, on young women with education up to the completion of primary school. Since this group by definition is within the work force, the impact the program seeks is to reduce the duration and frequency of unemployment periods. For this purpose, short-term training concentrating on basic skills can be important as ways to increase employability. However, the most important effect the program seeks is to increase the efficiency of job searches by improving labor intermediation services.
- 4.13 Anticipated impact for this group of beneficiaries are that (i) their participation in the program will lead to reduced frequency and duration of unemployment periods in comparison with the control group (impact of program is positive) and (ii) the combination of short-term training courses, internships, and support in the job search process provided by competitively selected providers will maximize the reduction of unemployment rates.

- 4.14 Returns to the individual from education in the country are somewhat lower than in the other countries of the region, particularly in primary and secondary education. Given the low rates of return and the low investment in the educational system, the incentives for the working age population to accumulate human capital have been weak. However, rates of return tend to be higher for the poorer population, and especially when the quality of education is high.

Table IV-5. Returns to education in LAC										
	Arg 96	Bol 95	Bra 95	CR 95	Hon 96	Mex 94	Prgy 95	Per 96	Uru 95	Dom. Rep. 96
Annual rate of return by level										
University	0.19	0.18	0.22	0.23	0.19	0.19	0.16	0.12	0.15	0.19
Secondary	0.07	0.05	0.15	0.15	0.14	0.10	0.11	0.02	0.10	0.06
Primary	—	0.05	0.16	0.08	0.11	0.06	0.11	0.06	0.09	0.05
Relative wages										
University/ Secondary	2.59	2.43	3.07	2.15	2.56	2.56	2.68	1.85	2.17	2.40
Secondary/ Primary	1.43	1.40	2.15	1.74	2.05	1.83	1.97	1.13	1.79	1.24
Primary/ No education	0.99	1.30	2.56	1.48	1.95	1.44	1.97	1.47	1.69	1.69

Notes: With the exception of Argentina, the Dominican Republic, Mexico, Paraguay, and Uruguay, the criterion for primary schooling is 6 years, secondary 11 years and university 16 years. For Argentina and Mexico, primary is 6 years, secondary 12 years and university 17 years. For the Dominican Republic, primary is 8 years, secondary 12 years and university 17 years.

Based on a logarithmic regression (wages) for experience and a linear rule for education. Wages projected based on 5 years of experience.

Rates of return by relative educational level and wages based on years completed.

Source: OCE/IDB, based on data from household surveys.

- 4.15 The analysis of the program's economic profitability was estimated based on the potential benefits derived from increased productivity among unskilled workers served by the program. The net benefit is evaluated in comparison to the situation with and without the program. In the case of the scenario without the program, the productivity of the unskilled worker has been considered, taking into account this worker's probability of employment and the average search time for finding work. In the situation with the program, semi-skilled workers were considered, adjusting for the probability of employment, and including the training time and the job hunting periods during which the worker is not productive.
- 4.16 According to the above-mentioned calculations, even if the program succeeds (in increasing productivity) among only 30% of the beneficiaries served, the internal rate of return would be between 19% and 17%, depending on the average unit cost for training activities. The costs would be from US\$1,200 to US\$1,333. With the average unit cost of the program funded being approximately US\$700, the ex ante profitability would justify the investment.

B. Risks

- 4.17 Institutional and financial sustainability. The program seeks to establish a new mechanism for the provision of training services which, in addition, will serve a different target population from the one served today. The permanence of the program's activities will depend on achieving a general consensus in the sector on the need for change in the structure of funding and in how services are provided. The project provides for independent impact assessments so as to nurture a process of policy dialogue with the training sector. The results of the assessments not only will clarify the impact of the program, but will provide an important case study in the process of dialogue on improvements and reforms to the training and employment system. SET will coordinate the dialogue, which will include the main players in the system: (i) private sector; (ii) private providers; and (iii) public providers (INFOTEP, technical institutes, etc.), among others.
- 4.18 Institutional capacity for program execution. The executing agency, SET, has not in the past executed any program of this scope. To reinforce the ability to execute the program, a number of activities have been provided for, some in relation to the scope of the program, others with support during execution. The size of the program has been designed to increased viability of execution. The program design provides for practical training workshops on project execution. The team, along with international consultants, will provide training for SET to help it launch the program's activities. The strengthening activities are of various types. During the first three months of the program there will be specific practical training in execution of the program. During the following 15 months, there will be institutional strengthening work to improve SET's ability to develop policy, assessment tools, and in general to establish an ongoing policy dialogue with the main players in the labor market.

LOGICAL FRAMEWORK
Dominican Republic
Program for training and labor modernization
(DR-0134)

Narrative Summary (NS)	Verifiable indicators (VI)	Means of verification (MV)	Major assumptions
<p>Goal:</p> <p>1. To increase the productivity and employment opportunities of the Dominican Republic's work force through improvements in provision of services in the training sector.</p>			
<p>Purpose:</p> <p>1. (i) to increase the employability of the beneficiaries, bringing together the training offered and the labor demand by employers;</p> <p>(ii) to evaluate the effectiveness of different job and training programs;</p> <p>(iii) to establish the basis for an ongoing dialogue on policies to modernize the labor market; and</p> <p>(iv) to strengthen SET in order to increase the effectiveness of its policies and programs.</p>			

Narrative Summary (NS)	Verifiable indicators (VI)	Means of verification (MV)	Major assumptions
Results:	(each benchmark in relation to control group)		
1.1 Discouraged or unemployed poor workers trained in areas for which there is private sector demand.	1.1 search time reduced by 20%, unemployment rate reduced by 15%, incomes increased 10%, duration of employment 15% greater.	1.1 Longitudinal surveys of each group trained, conducted independently of the executing agency.	
1.2 Discouraged or unemployed poor workers receive labor intermediation services.	1.2 Search time reduced by 10%, unemployment rate reduced by 5%.	1.2 Longitudinal surveys of each group trained, conducted independently of the executing agency.	
2. Proposals completed for implementation of new regulation of Articles 465 and 466 of the Labor Code.	2. Study conducted to determine benefits and estimate costs of the new system of guarantee of labor credits. Sample contracts designed. Regulations of Articles 465 and 466 and recommendations proposed.	2. Reports submitted by the executing agency.	
3. Enhanced institutional capability of SET in policy development, labor intermediation and training services; improved administration, assessment and supervision of its programs.	3. New SET structure implemented, and its administrative procedures improved and automated. Training of personnel done in accordance with the new operational/administrative structure. Ten regional SET offices functioning and equipped.	3. Reports and evidence generated by the technical executing unit.	

Procurement plan

Principal procurements	Financing	Method of Procurement (US\$000)	Registration/ Prequalification	Year
Consulting and other services <u>a/</u> US\$3 million	IDB	ICB over US\$200 CB from US\$5 to US\$199 DC under US\$5	Y/N	1 and 2
Job training courses and job counseling US\$10.4 million	IDB	ICB over US\$350 CB under US\$349	Y/N	1, 2, and 3
Equipment and materials US\$1.8 million	IDB	ICB over US\$200 CB US\$199 to US\$10 DC under US\$10	N	1 and 2

DC – Direct contracting

CB – Competitive bidding

ICB – International competitive bidding

a/ other services – medical checkups, accident insurance and services for students of training institutions.

RGII-DR087P
DR-0134
Original: Spanish

PROPOSED RESOLUTION

REPUBLICA DOMINICANA. LOAN ___/OC-DR TO THE REPUBLICA DOMINICANA

(Training and Labor Market Modernization Program)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República Dominicana as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Training and Labor Market Modernization Program. Such financing will be for the amount of up to US\$16,900,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the "Financial Terms and Conditions" and to the "Special Contractual Conditions" of the Executive Summary of the Loan Proposal.

RGII-DR088P
DR-0134
Original: Spanish

PROPOSED RESOLUTION

REPUBLICA DOMINICANA. PARTIAL PAYMENT OF INTEREST ON
LOAN No. ____/OC-DR TO THE REPUBLICA DOMINICANA

(Training and Labor Market Modernization Program)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, as administrator of the Intermediate Financing Facility Account, hereinafter referred to as the "account", to enter into such contract or contracts as may be necessary with the República Dominicana, as Borrower, and to adopt such other measures as may be necessary to utilize the resources of the account to pay a part of the interest due by the Borrower on outstanding balances of up to US\$16,900,000 of the loan authorized by Resolution DE- ____/ __, in accordance with applicable Bank policy.