

## PROGRAM FOR RETRAINING WORKERS DISPLACED BY THE PRIVATIZATION PROCESS

(TC-94-09-09-7)

### EXECUTIVE SUMMARY

**EXECUTING AGENCY:** Escuela de Administración de Negocios para Graduados [Graduate School of Business Administration] (ESAN).

**BENEFICIARIES:** The beneficiaries will be 10,000 workers displaced by the five participating enterprises, along with workers who will benefit in the future from the transfer of experience gained under the program.

**OBJECTIVES:** The project's overall objective is to help the privatization process, easing its impact on displaced workers by enabling more of them to reenter the labor market. The demonstration effect of the project will enable this experience to be transferred for use in programs targeting other groups of workers.

**DESCRIPTION:** The project will provide training and technical assistance services to some 10,000 workers displaced by the five participating enterprises, which are being privatized. The wide variety of services offered will range from identification of each worker's needs and the provision of training to placement in new employment.

The project will have three components: (i) identification of each worker's needs, which will involve orientation and motivation courses, compiling data on each worker, and determining the demand for labor; (ii) specialized services involving training and technical assistance that match the worker needs and labor demand determined under component (i); and (iii) transfer of the experience to the government.

The project will be executed by the Escuela de Administración de Negocios para Graduados [Graduate School of Business Administration] (ESAN) through an executing unit set up for that purpose. The ESAN will set up support centers (SC) in each of the five participating enterprises to make the services accessible to the project's target population. The ESAN and the SC will provide some specialized services, although in most cases other institutions will be hired.

The design of the retraining program to be carried out under this project was developed in conjunction with the participating enterprises and takes into

account the experiences of several countries and Peru's own situation. The Peruvian government, through its Comisión de Promoción de la Inversión Privada [Private Investment Promotion Commission] (COPRI), the participating enterprises, and the displaced workers will all contribute toward the program's financing.

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| <b>FINANCING:</b> | Modality:                          | Grant from Facility II,<br>Human Resources |
|                   | Local counterpart<br>contribution: | US\$1.0 million                            |
|                   | Beneficiaries:                     | US\$0.2 million                            |
|                   | MIF:                               | US\$6.0 million                            |
|                   | Total:                             | US\$7.2 million                            |

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| <b>SCHEDULE OF<br/>EXECUTION:</b> | Execution period: 17 months   |
|                                   | Disbursement period: 18 months. The only exception<br>will be on additional payment to the firm that will<br>carry out the ex post evaluation of the program, the<br>disbursement period for which will be 27 months. |

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| <b>ENVIRONMENTAL<br/>CLASSIFICATION:</b> | The Environment Committee, at its meeting of<br>February 14, 1995, classified this as a Category II<br>operation. |
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| <b>SPECIAL<br/>CONTRACTUAL<br/>CONDITIONS:</b> | In addition to the general contractual conditions to<br>which this operation will be subject, the following<br>special conditions will also have to be included: |
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- a. As conditions precedent to the first disbursement of the MIF resources, the executing agency must submit the following to the Bank, within one month after signature of the agreement: (i) evidence that the project coordinator has been hired; and (ii) the agreement entered into with the COPRI, in which the duties of the parties with respect to project execution are established, including: a) the executing agency's pledge to transfer to the COPRI, within two months following project completion, the experience gained thereby, and b) the contributions that the COPRI will make toward the project in the form of a grant.
- b. The executing agency must agree to submit to the Bank within two months after signature of the agreement evidence that the project's executing unit has been established and outfitted and its staff hired.

## I. COUNTRY ELIGIBILITY

- 1.1 On December 14, 1993, the Donors Committee declared Peru eligible for all modalities of financing under the Multilateral Investment Fund (MIF).

## II. FRAME OF REFERENCE

### A. General

- 2.1 In 1990, the Government of Peru launched a series of structural reforms, one of the purposes being to transform the role of the state. Among the most significant changes that the strategy of economic restructuring and external openness introduced was to limit the state's role as a producer of goods and services. Accordingly, state-owned enterprises began to be privatized.
- 2.2 When the reform process was first instituted, the state controlled over 170 nonfinancial enterprises that employed 110,000 workers, contributed approximately 15 percent of GDP, and controlled the principal sectors of the economy. In addition to its monopolies in telecommunications, electric power, transportation, and water, the state also controlled the major enterprises in the mining, hydrocarbon, and fishery sectors, and owned many industrial establishments producing a variety of commodities from steel and paper to tobacco and medicine.
- 2.3 In September 1991, the Comisión de Promoción de la Inversión Privada [Private Investment Promotion Commission] (COPRI) was created to design and implement a global program to privatize all state-owned enterprises. The Peruvian privatization program, like economic reform in general in the country, is one of the most ambitious and expeditious in all Latin America.
- 2.4 The reform process, and privatization in particular, has had serious social consequences and a considerable impact on the thousands of workers displaced as a result of the reorganization measures taken prior to privatization. As of late 1994, of the 110,000 employees of the 170 state-owned enterprises, approximately 44,300 had been retrenched from the 49 enterprises that the COPRI had privatized as of that date. This downsizing meant a 40 percent reduction in force in state enterprises.
- 2.5 The government gave displaced workers large severance payments, which in many cases included that required by law based on length of service (an average of US\$4,000 to US\$8,000), plus additional sums (averaging from US\$1,000 to US\$2,000) as an inducement to voluntary separation. Such compensation notwithstanding, in the absence of any retraining program, most of the 44,300 displaced

workers have not been reabsorbed into the labor market. Without a program targeting them specifically and without a proper employment information system, these displaced workers have had difficulty finding new employment. The Ministry of Labor, which might otherwise have assumed responsibility for instituting such a system, apparently does not have the institutional capacity to implement special programs to address unemployment in the country.

- 2.6 A study conducted on a representative sample of workers displaced by one mining enterprise found that fewer than 50 percent were gainfully employed and that average monthly income was down by almost 50 percent. The study also found that the workers, uninformed about suitable ways to invest and save their money, lost a good part of their severance payments by investing in investment funds or cooperatives that have already failed.
- 2.7 What makes the social problems associated with privatization so different is the size and characteristics of the affected population. Most are at the low end of the pay scale; the skills that for years have been their stock-in-trade are no longer needed. The displaced workers reenter the job market at a relatively advanced age and generally with little education behind them. As a rule, the enterprises being privatized are in geographically isolated areas where they are the hub of economic activity. This means there are few employment opportunities elsewhere in the area, which makes it difficult for displaced workers to find new employment. Moreover, newly privatized enterprises only rehire a small percentage of the displaced workers.
- 2.8 Despite economic recovery, displaced workers are still up against a depressed labor market where unemployment and underemployment are running high. The unemployment rate is at 10 percent. Underemployment is very high and has risen from 26 percent in 1980 to 77 percent; in the meantime, employment in the informal sector has climbed to 45 percent. According to figures supplied by the Ministry of Industry, between 1990 and 1994, 200,000 jobs were lost in the manufacturing sector and another 400,000 in the other sectors. All this in a country with the worst poverty and human development indices of the middle-income countries of the region. Some 54 percent of Peruvians live in poverty, 22 percent in extreme poverty.
- 2.9 Despite the sizable growth it has experienced, the informal sector still offers good opportunities to displaced workers who acquire the skills and/or receive the assistance that enable them to take advantage of the opportunities surfacing in sectors where economic development and diversification are increasing demand. In 1994, GDP grew by over 12 percent. Private investment is increasing at an annual rate of 20 percent. With the recovery of real wages, private consumption grew at a rate of 9.4 percent in 1994 and is expected to average between 4 percent and 5 percent per year for the remainder of the decade.

B. Sizing of the project

- 2.10 Recognizing how important it is that workers displaced by future privatization not end up in the same predicament as workers displaced in the past, the government, through the COPRI, requested the Bank's assistance in developing a worker retraining program. The COPRI has assumed responsibility for the program's implementation in the near term, given the fact that the state agencies directly associated with labor issues do not have the institutional capacity to do so.
- 2.11 Given the magnitude of the problem in Peru, the Bank and the COPRI jointly decided that the program could not attempt to help all workers displaced in the past and would have to focus instead on assisting workers currently being displaced. The COPRI and the Bank agreed on eligibility criteria for the workers and participating enterprises. The one criterion established for workers concerns the timing of their displacement: all workers displaced by the participating enterprises during project execution or subsequent to June 1994 will be eligible.
- 2.12 The following criteria were established for selecting the participating enterprises: (a) enterprises located mainly outside of Lima, that had the highest number of affected workers, and that are an important presence in the country, especially in the area where they are located, were given preference; (b) only enterprises currently undergoing privatization and with an established reduction-in-force plan were eligible; and (c) enterprises participating in the project had to show an interest in and commitment to it and be willing to contribute resources toward its implementation.
- 2.13 Based on these criteria, five enterprises were selected to participate in the program. <sup>1/</sup> In late 1993, these enterprises employed 28,100 workers - 43 percent of the employees of public enterprise. One hundred workers were displaced in the first half of 1994 and 2,600 in the second. A reduction in force of another 7,400 workers is expected in 1995. The other 18,000 workers will remain with the privatized enterprises. The 10,000 workers displaced by the five participating enterprises since June 1994 will be the program's target population.

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<sup>1/</sup> The names and descriptions of the five participating enterprises appear in the Bank's technical files.

### III. THE PROJECT

#### A. Objectives

- 3.1 The project's general objective is to help the privatization process, easing its impact on displaced workers by increasing the number that reenter the labor market. The demonstration effect of the project will enable this experience to be transferred for use in programs targeting other groups of workers.
- 3.2 The specific objective of the program is to provide training and technical assistance services to some 10,000 workers displaced by the five participating enterprises undergoing privatization. The wide variety of services offered will include ascertaining a worker's needs, providing that worker with training, and finding him or her a new job either in self-employment or salaried employment.

#### B. Description

##### 1. General

- 3.3 The design for the worker retraining program was developed jointly with the enterprises selected to participate in the program and takes into account Peru's specific situation, including the lack of employment information systems and of adequate job counseling and placement services, the workers' limited education, the existence of hundreds of training services, many of inferior quality, the high unemployment and underemployment rates, and the predominance of microenterprise in the economy.
- 3.4 Given this scenario, the strategy selected for Peru is geared toward specific enterprises, with personalized assistance to workers. With this strategy, informal employment information systems are set up and workers have direct access to services. The magnitude of the problem, the weakness of the state institutions at the present time, and the urgent need to come to the aid of the workers being displaced by the privatization process precluded any possibility of developing a nationwide program, as it would require too much time. The program was designed to provide services in the near term and at the same time develop a method that could be used to set up a program on a national scale in the future.
- 3.5 The experiences that various countries have had with worker retraining programs were considered in program design. Earlier programs demonstrated the importance of bringing the workers together, offering them a wide variety of the kind of services they require, doing a followup of at least four months, making available services that match the skills and interests of the target group,

and including the workers' families in the motivation and orientation courses.

- 3.6 The key aspects of the program are: (a) the wide variety of services offered, ranging from motivation, skills evaluation, identification of needs, training and technical assistance, job placement or support in setting up microenterprises, and followup; (b) implementation of the program through the support centers (SC) established in each participating enterprise so that the services are readily available; (c) personalized assistance, with the help of social workers; (d) a slant toward satisfying private sector demand, determined by means of the labor market analyses and constant contacts with the private sector; and (e) the workers' participation in administering the program activities.
- 3.7 The project will be executed by the Escuela de Administración de Negocios para Graduados [Graduate School of Business Administration], a private institution. An executing unit will be set up for central command of the program's day-to-day operations. The COPRI will act as liaison between the Peruvian government and the Bank. In the enterprises themselves, the program will be implemented through an SC established in each of the five participating enterprises. Although some services offered to the workers will be provided by staff of the SC and executing unit, most will be supplied by specialized firms hired for that purpose.
- 3.8 Each SC will map out and implement a program of activity for its respective enterprise, following the method and basic program features determined by the executing unit. At each enterprise, labor and management alike will be instrumental in implementing the program and will assist the SC through advisory committees created to articulate the workers' interests and requests with regard to the program.
- 3.9 The project is expected to have a demonstration effect, showing the effectiveness of a company-level worker retraining program in which workers play an active part and that is heavily slanted toward private sector labor demand. The experience gained from this program will be used to perfect the worker retraining method that the COPRI will receive and then transfer to the Ministry of Labor or the Ministry of Education, whichever is in the best position to assimilate it. The method need not be strictly for privatization cases, but also for the restructuring of public or private enterprises to modernize technology or for any other reason. With the new macroeconomic policy established in 1990, restructuring is becoming more and more common.

## 2. Components

- 3.10 The project will consist of three components (Annex VII has a more detailed description of the services involved in components 1 and 2).

a. Component 1: identification of needs

- 3.11 This component will include: (a) orientation and motivation courses for the workers; (b) preparation of a profile of each worker's skills and qualifications; (c) a diagnostic study of the labor market in the impact area to ascertain the demand for labor; and (d) identification of each worker's needs and preparation of an individual plan. The services offered under this component will be free of charge to all 10,000 displaced workers who are the program's target population.

(i) Orientation and motivation

- 3.12 The orientation and motivation courses will be offered to the 10,000 participating workers and their families. One or more firms or nongovernmental organizations (NGOs) specializing in this service will be hired for each participating enterprise. The courses will supply information on, among other things, the privatization process and the need to reduce staff; the worker retraining program and the services that it will offer; and how to conduct a job search and save and invest the money received as severance pay.
- 3.13 During this orientation phase, workers will be asked to take part in managing the retraining process by serving on advisory committees on which labor and management will be equally represented. These committees will be the nexus between the workers and the SC. Each enterprise and group of workers will tailor their committee to fit their own interests and needs.

(ii) Worker profiles

- 3.14 Specialized firms will handle the second phase of this component and will compile the information necessary to draw up a profile of each worker. Written surveys and personal interviews will be used to collect the basic information about each worker. The executing unit will decide what method will be used, including the general characteristics of the survey conducted in the enterprises. In addition to the worker's current occupation, the information will cover all his or her qualifications. The workers will indicate what their interests are and their thoughts about their own future. During the interviews, the consultants will do their own analysis of each worker's aptitude for the various options, particularly entrepreneurship.
- 3.15 The information thus compiled will be fed into each SC's database and then used to monitor each worker. The information will also make it easier to match the worker's skills to the employment opportunities available. These databases will be connected to a global database kept by the executing unit, which will determine how the enterprises' databases are to be configured and the procedures that will be followed to update them.



(iii) Diagnostic study of the labor market

- 3.16 While the worker orientation and data survey phases are in progress, each SC will obtain information on the labor market within its enterprise's impact area. The executing unit will collect the basic information through research and by subscribing to statistical and information services on labor from scattered sources. The coordinator and employment specialist at each SC will stay in contact with institutions in the region (for example, business associations) to keep abreast of recent labor-market developments and to get workers placed as interns and permanent employees.

(iv) Plans of action

- 3.17 The SC will compare the information collected on each worker with the job opportunities available and recommend the appropriate services.

b. Component 2: specialized services

- 3.18 Of the 10,000 workers who will participate in component 1, approximately 8,000 will require the specialized services offered under component 2, since the rest will either be rehired by the privatized enterprises or not be interested in receiving services because they have already found employment elsewhere or plan to retire. The workers who do participate in component 2 will be required to pay an enrollment fee, which could be the equivalent of US\$20 per person and will entitle them to receive the services.

- 3.19 The specialized services to be offered fall into the three general categories described below:

(i) Training

- 3.20 The training services will include courses on various topics of interest to the workers. One type of training would be in managing microenterprise establishments and would involve courses on how to set up and manage a business. Another important area would be technical production-related training involving a variety of courses to either improve or learn the technology of various branches of production and services (carpentry, baking, and the like).

(ii) Technical advisory services

- 3.21 While the training will be through generalized courses, the technical advisory services will be tailored to the needs of small groups or individual workers. The services will include business-related, technical and production advice, and business advice. The purpose of the business-related technical and production advice is to answer questions about the establishment and initial operation

of businesses of all types. This advice will be provided not just by academically trained experts but also by entrepreneurs whose experience has given them a command of the subject matter.

- 3.22 The business advice will include legal and financial counseling and guidance on preparing profiles and projects. The legal advice will cover such issues as the legal formalities that must be completed when setting up a business and tax obligations. The financial advice will include information on how to obtain credit. To facilitate preparation of business profiles for microenterprises, advice will be supplied on profiles and projects, both in the form of general information and individual counseling.

(iii) Placement services

- 3.23 The SC and the executing unit's technical team will supply almost all the placement services, which will include placement in salaried jobs, internships, subcontracting for private enterprise, and placement through business services.
- 3.24 The service that places workers in salaried jobs will locate employment opportunities and advise workers for placement purposes. The advisory services will include résumé preparation, practice interviews, organizing a job search, and information on employment opportunities. The internship service will place workers in businesses for short periods (approximately two months) to be trained and gain the experience that will better enable them to find salaried employment. The project includes funds to pay the workers minimum wage for the duration of the internship, thus making it easier to place them in businesses that offer such arrangements.
- 3.25 Placement through services that subcontract for private enterprise takes advantage of the fact that privatized Peruvian enterprises and other businesses undergoing reorganization are adopting the policy of subcontracting microenterprises to perform services or to produce part of their production. This service will identify these opportunities, publicize them, and provide advice, particularly on quality control. Specialized consultants will place workers through business services, using the database on worker profiles (qualifications and skills) and on joint-venture and franchising opportunities.

(iv) Demand for specialized services

- 3.26 Approximately 30 percent of the 8,000 workers participating in the activities under program component 2 will need help to find salaried employment, while 70 percent will want to be self-employed and will therefore need training as entrepreneurs or self-employed workers.

- 3.27 The 70 percent estimate is based on the trend observed in the self-employment sector in the country, where microenterprises involved in both trade and production services have increased in number. Most of the workers will engage in trade, since the worker's average severance pay of US\$6,000 will not be sufficient startup capital for productive activities that require a greater initial investment. Moreover, the training effort notwithstanding, a large percentage of the displaced workers have only limited educational backgrounds; trade is simpler, more gradual, and the risk smaller.
- 3.28 Those enterprises to be privatized according to the franchise model will likely rehire over 30 percent of the displaced workers, judging from the trend among already privatized enterprises, mainly from their professional staff. Moreover, as the economy is expected to grow at an annual rate of almost 8 percent in the years ahead, businesses will have to hire more workers, particularly skilled labor.
- 3.29 The table in Annex VII shows the estimated demand for each service offered and the service provider - whether it is a firm, an NGO, or the technical team of the SC and the ESAN. Since each worker is expected to participate in at least three courses, given the costs of the services (shown in Annex III) the average cost per worker will be US\$600. The workers will choose their courses with the help of SC specialists. The total cost of the courses is not to exceed US\$1,000 per worker.

c. Component 3: transfer of experience

- 3.30 To make certain that this demonstration project serves its purpose, upon its completion the executing unit will transfer the method and experience gained to the COPRI. Since this method can be used with broader groups than the group of workers displaced specifically as a result of privatization, the COPRI will pass the experience on to the Ministry of Labor or the Ministry of Education. The process of transferring the experience will begin in the final month of program execution and continue for another two months thereafter. To that end, four persons from the executing unit - the coordinator, the associate coordinator, the information and data processing specialist, and the programs and services specialist - will be hired for an addition two months beyond the 15 months scheduled for project execution.
- 3.31 Among the specific products transferred will be the proven method for evaluating, training, and placing displaced workers; the employment information system, consisting of a information network involving private business associations; the findings of the diagnostic studies on the labor market in the project's impact areas; a database with information on specialized service providers, such as those that draw up worker profiles; and a database containing information on opportunities for permanent jobs and self employment. Although the useful life of the information

in the databases may be limited, the method used to establish and maintain the databases will still be useful.

C. Cost and financing

- 3.32 The estimated total cost of the program is US\$7.2 million, of which US\$6 million in MIF funding is being requested. The COPRI, the participating enterprises, and the program's target workers will contribute US\$1.2 million as the local counterpart. The following is a summary of costs (in US\$):

|                                | MIF              | COUNTERPART      | TOTAL<br>COST    |
|--------------------------------|------------------|------------------|------------------|
| <b>ADMINISTRATION</b>          | 536,000          | 435,000          | 971,000          |
| 1. Specialized institutions    |                  |                  |                  |
| 1.1 Fees-ESAN                  |                  |                  | US\$394,000      |
| 1.9 Admin. expenses-           |                  |                  | ESAN US\$142,000 |
| 2. Individual consultants      |                  |                  |                  |
| 2.1 Salaries-SC                |                  |                  | US\$278,000      |
| 6. General support-SC          |                  |                  | US\$157,000      |
| <b>SERVICES FOR WORKERS</b>    | 5,000,000        | 200,000          | 5,200,000        |
| 3. Participants                |                  |                  |                  |
| <b>EX POST EVALUATION</b>      | 200,000          |                  | 200,000          |
| 1. Consulting firm             |                  |                  |                  |
| 1.1 Fees-US\$150,000           |                  |                  |                  |
| 1.9 Admin. expenses-           |                  |                  | US\$50,000       |
| <b>96. DIRECT CONTRIBUTION</b> |                  | 500,000          | 500,000          |
| 96.1 Payment of<br>incentives  |                  |                  |                  |
| <b>98. CONTINGENCIES</b>       | 264,000          | 65,000           | 329,000          |
| <b>TOTAL COST</b>              | <b>6,000,000</b> | <b>1,200,000</b> | <b>7,200,000</b> |

- 3.33 The administrative costs include the costs of the ESAN executing unit for the 15 months of project execution, the costs of the personnel needed during the two-month transition period (US\$536,000), and the costs of the five SC (US\$435,000) that will

work directly with the five enterprises participating in the program. The US\$5.2 million under services is the cost of the specialized services that firms or institutions will be hired to provide for the participating workers. The sum of US\$200,000 has been budgeted for the Bank to hire, within two months after signature of the agreement, a consulting firm to design an evaluation system and to carry out the ex post evaluation. The US\$500,000 in incentives that the COPRI will pay to the displaced workers over and above the severance pay required by law has also been figured into the program's cost. Finally, a sum has been budgeted for contingencies.

- 3.34 The MIF grant would finance all expenses of the executing unit and the firm that will conduct the ex post evaluation, and a portion of the cost of the services for the displaced workers and contingencies. The local counterpart contribution will come from three different sources: the COPRI will contribute the incentives payment, part of the cost of the SCs, and a portion of the contingencies; each of the five participating enterprises will contribute a portion of the SCs' administrative expenses; and the workers will pay enrollment fees that will be used to cover a portion of the costs of the services.
- 3.35 In addition to the severance pay that each worker must by law receive (an average of US\$6,000), in some cases the COPRI will pay an additional incentive to reduce the social cost. These incentives will induce voluntary separation and will increase the funds that workers have on hand to pay their expenses during the transition period (such as their living expenses while they participate in the technical assistance and training courses) and have therefore been included as part of the local counterpart contribution to the program. The displaced workers at four of the five enterprises will receive incentives averaging US\$1,200. The incentives that workers at the fifth enterprise receive will be smaller, although the exact figure has not yet been determined.

D. Organization and execution

1. Organization

- 3.36 **General structure.** The project's executing agency and the party that will enter into the agreement with the Bank will be the Escuela de Administración de Negocios para Graduados [Graduate School of Business Administration] (ESAN), for which purpose an executing unit will be created. The ESAN will coordinate project execution with the Comisión para la Promoción de la Inversión Privada [Private Investment Promotion Commission] (COPRI), which will serve as liaison between the government and the Bank. The ESAN, in turn, will enter into an agreement with the COPRI in which each institution's obligations and responsibilities with respect to project execution are established. At the enterprise level, the

program will be implemented through an SC set up in each of the five participating enterprises and which the ESAN will supervise and advise. The services to the workers will mainly be supplied by specialized firms or NGOs.

- 3.37 **Executing agency (ESAN).** The choice of the ESAN as executing agency was based on an independent analysis that compared its qualifications with those of the other candidates. A preliminary analysis narrowed the field of possible candidates to three, only two of which were viable. The factors considered in the analysis were that the project required an institution with broad experience in managing projects of this scope involving the hiring of a variety of services and that had the institutional capacity necessary, and ties to the business community.
- 3.38 Once the candidates had been identified, an independent consultant evaluated the two institutions. The ESAN was selected because it was the better qualified according to the following criteria: (a) two or more years of experience as the entity in charge of executing projects financed with international funds; (b) two or more years of adequate experience in project management; (c) the ability to get the business sector involved; and (d) an adequate physical and administrative infrastructure to execute the project. The ESAN's link with private enterprise is another significant advantage it brings to the project. Apart from being an important presence in the national dialogue on business management, the ESAN has a large network of alumni that will be one way to ensure that the project remains focused on private-sector demand and that it can rely on that sector's support for some of the components, such as placing displaced workers in internships with businesses.
- 3.39 To manage the project, the ESAN will set up a unit with a staff devoted full-time to the project and drawn from its own staff or hired from outside. The staff of the executing unit will consist of a coordinator, an associate coordinator, a programs and services specialist, a job placement and internship specialist, an investment and business specialist, a finance and accounting specialist, an administrative accounting assistant, a legal advisor (part-time), and an information and data processing specialist. The terms of reference for each member of the executing unit appear in Annex V.
- 3.40 **Coordinator agency (COPRI).** The COPRI will serve as liaison between the Peruvian government and the Bank for this project. It will also serve as liaison between the executing unit and the special privatization committees [Comités Especiales de Privatización] (CEPRI) of the enterprises involved in the project. It will contribute its share of the local counterpart contribution, coordinate project execution with the Bank and the executing unit, and participate in monitoring and evaluating project execution.

- 3.41 **Support centers (SC).** Every SC will have a coordinator, two social workers (one for the duration of the project and another for just the first three months), and one labor specialist. One of the SCs' functions will be to establish, with the advice of the executing unit, the advisory committees within each participating enterprise. The SCs will also be responsible for charging and collecting the enrollment fee that workers who participate in component 2 must pay. This enrollment fee, which will filter out any workers not seriously interested in the program's services, will go toward the costs of the specialized services. The terms of reference for each member of the SC are detailed in Annex V.
- 3.42 An SC will identify the services needed in its respective enterprise and so advise the executing unit, which will then select suppliers of such services.
- 3.43 **Hiring of special services.** The firms that will provide the services required under the project will be hired following the Bank's procedures for the selection and hiring of consultants. During project preparation, a first call for bids was issued to evaluate and prequalify firms interested in participating in the project. A group of prequalified enterprises was thus selected, which may be supplemented by another group, pursuant to the international call for prequalification to be held in view of the interest expressed by firms from member countries of the Bank in providing services under the project. The prequalified firms may participate in all competitive bidding held under the project. The backgrounds of the selected firms will be updated in the short list to be submitted to the Bank for consideration.

## 2. Schedule of execution

- 3.44 The project's execution period will be 17 months. In the first two months, the executing unit and the SCs will be set up and all their staff hired. In the third month, orientation and motivation courses will be given and the advisory committees will be established, with labor and management equally represented. In months 4 and 5, component 1 will be completed with preparation of a profile and plan for each worker and a diagnostic study of the labor market. The training and technical advisory services will be offered during months 6 through 11, and job placement and followup during months 12 through 15. The experience gained from the project will be transferred to the COPRI from months 15 to 17.
- 3.45 The project's disbursement period will be 18 months, except for the amounts owed to the consulting firm that will conduct the ex post evaluation of the program one year after execution, for which the disbursement period will be 27 months.

E. Disbursement

- 3.46 The MIF resources will be disbursed according to Bank procedures. Should the executing unit so request, a revolving fund may be established for the equivalent of 10 percent of the funding.
- 3.47 Prior to the first disbursement from the Bank's contribution and within one month after signature of the agreement, the executing unit will submit, to the Bank's satisfaction, evidence that it has complied with the following conditions: (a) the coordinator of the executing unit has been hired, according to the Bank-approved terms of reference, and (b) an agreement has been entered into by the ESAN and the COPRI in which the responsibilities of the parties with respect to project execution are established, including: (i) the ESAN's pledge to transfer to the COPRI, within two months following project execution, the experience gained through the project, and (ii) the COPRI's obligation to contribute part of the local counterpart.
- 3.48 Within two months after signature of the agreement, evidence must be submitted that the executing unit has been created in the ESAN, its staff has been hired according to the terms of reference agreed upon with the Bank, and its activities have been initiated.

F. Monitoring and followup

- 3.49 Given the complexity of the program and the urgency of implementing it within a relatively short time frame, the COPRI, the Bank's Country Office in Lima, and the consulting firm to be hired by the Bank (see paragraph 8.1 and 8.2) will have to monitor the counterpart contribution closely. The ESAN, the COPRI, and the Bank's Country Office will hold monthly meetings to review the program's progress and monitor the SCs' performance of the activities under components 1 and 2. At least one supervisory mission is planned for the project team to help monitor and follow up on the program.
- 3.50 Within three months after signature of the agreement, monitoring and followup mechanisms will be established to ascertain, during program execution, the progress of the program and the extent to which its objectives are being accomplished. Among the indicators that will be monitored during project execution and which will be analyzed in the ex post evaluation are the following: (a) institutional mechanisms such as application for training and placement services; (b) operation of the SCs, and the extent of the workers' involvement and their receptiveness to the project; and (c) project impact, especially with regard to the employment status of the displaced workers ascertained by tracking each participant.



#### IV. FEASIBILITY AND RISKS

##### A. Availability of credit for microentrepreneurs

- 4.1 One of the program's risks, the question of the availability of credit for microentrepreneurs, is reduced somewhat by the fact that under the program the displaced workers would receive a severance-pay and incentives package (an average of US\$6,000 per worker). To maximize the borrowing capacity of those participants who need to supplement their severance package with credit, the project includes financial advice and guidance in preparing investment profiles.

##### B. Labor absorption

- 4.2 Another risk in the case of displaced workers unable to find salaried employment are the limitations that the informal sector and small-scale entrepreneurs have in terms of accommodating displaced workers in a business that provides them with sufficient income to satisfy their basic needs. The program will therefore be particularly careful to make certain that the services offered are responsive to the explicit demands in those microenterprise sectors that are in step with the economic development and diversification process the country is experiencing.

##### C. Delays in the privatization process

- 4.3 The project design is based on the current timetable of privatization, according to which the five participating enterprises are to be privatized in the months ahead. Thus, the planned execution period coincides with the time when the services offered under the program will be required. Any significant delay in the privatization and employment restructuring process would delay project execution. However, given the government's commitment to privatization, its importance for the modernization process proposed by the ruling party and the other parties that could be elected in the forthcoming elections, no delays in the process are anticipated.
- 4.4 While three of the enterprises do not have to go to auction, they do need to begin their reduction in force. The downsizing is expected to begin by April 1995, by which time the project should be operating to meet the needs of the displaced workers.
- 4.5 For the other two enterprises, privatization will mean that all workers will be dismissed and a portion rehired. The startup of project activities will coincide with the auctions. In both these cases, because the workers have specialized skills and replacements cannot be found in any appreciable numbers, the rehiring rate will be higher than the assumed overall average of 20 percent.

D. Labor disputes

- 4.6 Labor disputes could become a problem for program execution. To eliminate or, in the worst-case scenario, minimize this risk, the program's design emphasizes worker participation from the outset, as well as orientation and motivation activities and courses.

V. COMPLIANCE WITH THE PROJECT ELIGIBILITY CRITERIA

A. General criteria for project eligibility

- 5.1 MIF funding for a project to help displaced public-sector employees find new jobs is fully compatible with the MIF's general objectives, particularly Article I(d)(ii) of the Agreement Establishing the MIF on bearing certain of the costs associated with investment reforms and an expanding private sector.

B. Facility criteria for project eligibility

- 5.2 The proposed project fully meets the criteria for financing under the Human Resources Facility, particularly the provisions of Article III, section 3, for training workers who may be displaced as governments implement investment reforms, reduce public expenditures, restructure, or privatize.

VI. COMPATIBILITY WITH THE BANK'S PROGRAM FOR THE COUNTRY

- 6.1 The project is compatible with the Bank's program for Peru. The focal points of the Bank's strategy are poverty reduction, strengthening of social services, modernization of the state, and private sector growth. The project will alleviate the adverse social impact of privatization, help more workers reenter the labor market, improve the climate for private investment, and strengthen the private sector's capacity to offer services to displaced workers.

VII. AVAILABILITY OF MIF RESOURCES

- 7.1 **Modality of financing.** The project is expected to be funded by means of a grant, given the following: (i) On December 14, 1993, the Donors Committee declared Peru eligible for all modalities of financing under the MIF; (ii) Peru complies with the grant eligibility criteria at the country level (Article III, section 5(b) of the MIF Agreement), as detailed in section III, paragraphs 3.1, 3.2, and 3.3, of the country eligibility memorandum (MIF/GN-20);

and (iii) the project will help create the climate of social stability necessary to encourage private investment, as stipulated in Article III, Section 5(a), by providing investors with a greater capacity to retrain labor in areas in which there is demand in the private sector and by easing the social tensions brought on by the displacement of labor.

#### VIII. EX POST EVALUATION

- 8.1 One year after project completion, an ex post evaluation will be conducted to measure the project's impact and the accomplishment of its objectives. The evaluation will be carried out by independent consultants using information supplied by the monitoring and followup system described in paragraphs 3.49 and 3.50, among other sources. The firm and the executing unit will agree upon the method that will be used for the ex post evaluation and the indicators that the information system must provide during project execution for the evaluation. It will include an analysis of the project's institutional mechanisms, a quantitative study of the project impact on the participants (for example, the percentage of workers who have stable employment one year after the program and their income level), if possible a cost/benefit analysis of the program, a qualitative study of the work of the SCs and the ESAN, and an evaluation of the project's administrative and financial reports.
- 8.2 Accordingly, it is recommended that the Bank hire the independent consulting firm within two months after signature of the agreement. Within three months after signature of the agreement, the consulting firm must agree on the method to be used, establish the monitoring system, and assign the necessary staff to collect information during program execution. Upon program completion, the consultants will submit a preliminary evaluation report that will help transfer the experience. One year later the final report will be submitted.

**MIF - FACILITY II - PERU  
PROJECT SUMMARY**

**General objective of the project:**

To ease the impact that privatization has on the displaced workers by increasing the number that reenter the labor market and strengthening the private sector's capacity to provide those workers with services.

**Expected results:**

The program's immediate objective by the end of month 15, will be to have supplied services to 10,000 workers to help them find new employment, as either salaried or self-employed workers.

As this is a demonstration project, it is expected to prove the effectiveness of a worker retraining program instituted at the company level and involving personalized assistance to workers, worker participation in project management, and a heavy slant toward meeting private-sector demand for labor.

| COMPONENTS/ACTIVITIES  | EXPECTED RESULTS  |
|--|---|
| <p><i>Component 1:</i></p> <p>Identification of workers' needs</p> | <ul style="list-style-type: none"> <li>▶ motivation and orientation of 10,000 workers so that they better understand their position and the opportunities available.</li> <li>▶ databases containing information on each worker's interests, skills, and qualifications and on employment opportunities based on a diagnostic study of the labor market.</li> <li>▶ individual plans of action for each worker, determining the services he or she will require.</li> <li>▶ establishment of an advisory committee whose members will represent labor and management and will advise the support center.</li> </ul> |
| <p><i>Component 2:</i></p> <p>Specialized services</p>             | <ul style="list-style-type: none"> <li>▶ 8,000 people will have availed themselves of at least three of the training, advisory assistance, and placement services offered.</li> </ul>   |

ANNEX I

Page 2 of 2

| COMPONENTS/ACTIVITIES                             | EXPECTED RESULTS   |
|---|--|
| <i>Component 3:</i><br><br>Transfer of experience | <ul style="list-style-type: none"><li>▶ the method to evaluate, train, and place displaced workers will have been adopted by the COPRI and incorporated into its plans for other workers displaced by privatization.</li><li>▶ the following concrete products will have been transferred to the COPRI: an information network that involves business associations; findings of the diagnostic studies on the labor market; a database with information on service providers; and a database with information on employment opportunities.</li></ul> |

PERU  
WORKER RETRAINING PROGRAM  
TC-94-09-09-7

COSTS PER SERVICE

| Type of Service                                      | Percentage of Workers | Number of Workers | Cost per Worker (US\$) | Total Cost (US\$) |
|--|-----------------------|-------------------|------------------------|-------------------|
| I. COMPONENT 1                                       |                       |                   |                        |                   |
| 1.1 Motivation/orientation/evaluation                | 100                   | 10,000            | 50                     | 500,000           |
| SUBTOTAL   |                       |                   |                        | 500,000           |
| II. COMPONENT 2 <u>1/</u>                            |                       |                   |                        |                   |
| 2.1 Business management training                     | 70                    | 5,600             | 70                     | 392,000           |
| 2.2 Technical production-related training            | 40                    | 3,200             | 240                    | 768,000           |
| 2.3 Business-related technical and production advice | 50                    | 4,000             | 400                    | 1,600,000         |
| 2.4 Business advice (legal)                          | 70                    | 5,600             | 45                     | 252,000           |
| 2.5 Business advice (financial)                      | 70                    | 5,600             | 20                     | 112,000           |
| 2.6 Business advice (profiles and projects)          | 50                    | 4,000             | 300                    | 1,200,000         |
| 2.7 Business services                                | 20                    | 1,600             | 100                    | 160,000           |
| 2.8 Internships                                      | 20                    | 1,600             | 125                    | 200,000           |
| SUBTOTAL   |                       |                   |                        | 4,700,000         |
| TOTAL COST   |                       |                   |                        | 5,200,000         |

1/ Of the 10,000 workers, estimates are that only 80%, 8,000 workers, will participate in component 2.

SUPPORT CENTERS  
(US\$)

|                             | MONTHLY<br>COST | COST PER CENTER<br>(15 MONTHS) | TOTAL COST<br>(5 CENTERS) |
|-----------------------------|-----------------|--------------------------------|---------------------------|
| 1. Coordinator              | 1,500           | 22,500                         | 112,500                   |
| 2. Social workers <u>2/</u> | 1,000           | 18,000                         | 90,000                    |
| 3. Labor specialist         | 1,000           | 15,000                         | 75,000                    |
| <b>SUBTOTAL</b>             |                 |                                | <b>278,000</b>            |
| 4. Administrative support   |                 |                                |                           |
| 4.1 Secretary               | 400             | 6,000                          | 30,000                    |
| 4.2 Office                  | 450             | 6,750                          | 33,750                    |
| 4.3 Computer                |                 | 2,000                          | 10,000                    |
| 4.4 Software                |                 | 1,200                          | 6,000                     |
| 4.5 Photocopies             | 100             | 1,500                          | 7,500                     |
| 4.6 Supplies                | 300             | 4,500                          | 22,500                    |
| 4.7 Communications          | 400             | 6,000                          | 30,000                    |
| 4.8 Furnishings             |                 | 1,500                          | 7,500                     |
| 4.9 Travel and per diem     |                 | 2,000                          | 10,000                    |
| <b>SUBTOTAL</b>             |                 |                                | <b>157,000</b>            |
| <b>TOTAL</b>                |                 |                                | <b>435,000</b>            |

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2/ Two social workers will be hired at each support center, one for 15 months and the other for three months, to assist in the preparation of each worker's plan of action.

EXECUTING AGENCY  
(US\$)

|   | COST/MONTH | TOTAL COST<br>(15 MONTHS) 3/ |
|---|------------|------------------------------|
| 1.1 Fees  |            | 70,000                       |
| 1.2 Coordinator                                 | 3,800      | 64,600                       |
| 1.3 Associate coordinator                       | 2,500      | 42,500                       |
| 1.4 Programs and services specialist            | 2,500      | 42,500                       |
| 1.5 Placement and internship specialist         | 2,500      | 37,500                       |
| 1.6 Investment and business specialist          | 2,500      | 37,500                       |
| 1.7 Finance and accounting specialist           | 2,500      | 37,500                       |
| 1.8 Administrative accounting assistant         | 500        | 7,500                        |
| 1.9 Legal advisor (part-time)                   | 800        | 12,000                       |
| 1.10 Information and data processing specialist | 2,500      | 42,500                       |
| <b>SUBTOTAL</b>                                 |            | <b>394,000</b>               |
| 2. Administrative support                       |            |                              |
| 2.1 Secretaries (two)                           | 1,200      | 18,000                       |
| 2.2 Computers (8 @ US\$2,000)                   |            | 16,000                       |
| 2.3 Software                                    |            | 1,200                        |
| 2.4 Photocopies                                 |            | 3,750                        |
| 2.5 Supplies/paper                              | 1,000      | 15,000                       |
| 2.6 Transportation and per diem                 |            | 50,000                       |
| 2.7 Communications                              | 1,000      | 15,000                       |
| 2.8 Office                                      | 1,500      | 22,500                       |
| <b>SUBTOTAL</b>                                 |            | <b>142,000</b>               |
| <b>TOTAL COST</b>                               |            | <b>536,000</b>               |

3/ The budget is based on a 15-month period for executing the activities in components one and two, except for the salaries of the four people in the executing unit (the coordinator, associate coordinator, the information and data processing specialist, and the programs and services specialist), which have been budgeted at 17 months to allow for the additional two months required for them to transfer the experience gained.



SUMMARY OF COSTS  
(US\$)

|                                      | MIF       | COUNTERPART | TOTAL<br>COST |
|--------------------------------------|-----------|-------------|---------------|
| ADMINISTRATION                       | 536,000   | 435,000     | 971,000       |
| 1. Specialized entities              |           |             |               |
| 1.1 Fees-ESAN US\$394,000            |           |             |               |
| 1.9 Admin. exp.-ESAN<br>US\$142,000  |           |             |               |
| 2. Individual consultants            |           |             |               |
| 2.1 Remunerations-SC<br>US\$278,000  |           |             |               |
| 6. General support-SC<br>US\$157,000 |           |             |               |
| SERVICES TO WORKERS                  | 5,000,000 | 200,000     | 5,200,000     |
| 3. Participants                      |           |             |               |
| EX POST EVALUATION                   | 200,000   |             | 200,000       |
| 1. Consulting firm                   |           |             |               |
| 1.1 Fees-US\$150,000                 |           |             |               |
| 1.9 Admin. exp.-<br>US\$50,000       |           |             |               |
| 96. DIRECT CONTRIBUTION              |           | 500,000     | 500,000       |
| 96.1 Payment of<br>incentives        |           |             |               |
| 98. CONTINGENCIES                    | 264,000   | 65,000      | 329,000       |
| TOTAL COST                           | 6,000,000 | 1,200,000   | 7,200,000     |

PROPOSED RESOLUTION

PERU. NONREIMBURSABLE TECHNICAL COOPERATION FOR  
THE PROGRAM FOR RETRAINING OF WORKERS DISPLACED BY THE  
PRIVATIZATION PROCESS

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary and to adopt such other measures as may be pertinent for the execution of the Proposal Memorandum referred to in Document MIF/AT-\_\_\_\_\_ with respect to a technical cooperation with the Escuela de Administración de Negocios para Graduados for a Program for the Retraining of Workers Displaced by the Privatization Process.

2. That up to the sum of US\$6,000,000 is authorized for the purposes of this resolution, chargeable to the Human Resources Facility of the Multilateral Investment Fund.

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