

**EL SALVADOR  
MULTILATERAL INVESTMENT FUND  
LABOR INTERMEDIATION SERVICES  
(TC-00-03-01-6)**

**I. BACKGROUND**

- 1.1 El Salvador has begun a profound structural transformation in the 1990s following years of decline during the civil war. One of the key areas requiring transformation is the operation of the labor market. Even though the nation has exhibited relatively moderate levels of official unemployment (around 7%), these levels mask more profound distortions. The level of underemployment – considered the proportion of the population earning below the minimum salary – is over 30%. Large portions of the workforce continue to emigrate, largely to the United States, seeking better working conditions and salaries. Poverty and low levels of education impede advancement of the unskilled labor force. Female labor force participation, a growing element of the Salvadoran economy, faces significant barriers.
- 1.2 Current information indicates that the workforce in El Salvador does not suffer long periods of unemployment, largely because they cannot afford to. Firms report significant inefficiencies and high costs in finding the right personnel and in replacing lost personnel. Empirical evidence from INCAE indicates that El Salvador exhibits high levels of job rotation, that is, significant proportions of the population hold jobs for only short periods and then rotate to short-term unemployment and then to other jobs. These levels are higher than the so-called “rigid” labor markets of Europe and even higher than the most notably flexible labor market of the United States.<sup>1</sup> The majority of this high job rotation is not understood to contribute positively to the Salvadoran economy. One interpretation is that part of the high level of job rotation is related to the high levels of underemployment and mismatching of employees to positions.
- 1.3 An important element in the poor operation of the labor market in El Salvador is that there are few mechanisms to facilitate appropriate and more lasting matches between available jobs and the profile/skills of workers. Firms have few formal methods to find qualified personnel. A typical method is to advertise in a local newspaper. This results in a flood of applicants, requiring great demands on employers’ time and short-term decisions with often ill-matched hirings. Another secondary method of finding employment is through informal or family networks. This method is highly discriminatory and does not present employers with the widest range of choices.

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<sup>1</sup> The INCAE/BID study “Estudio sobre aspectos salientes del mercado laboral centroamericano,” indicated a monthly rate of entrance into the labor market of 2.6% in El Salvador, higher than any other Central American country and higher than either the United States (2.2%) or Europe (less than 1%).

- 1.4 The Ministry of Labor traditionally and legally has the responsibility for facilitating the connection between workers and jobs through a public employment service. There has been a very small Ministry of Labor-run employment service in El Salvador that the Ministry readily admits has been ineffective in facilitating employment and garnering the support of the private sector. The training system has been dominated by INSAFORP (*el Instituto Nacional de Formación Profesional*) which is a single, national tri-partite training institution supported by the national business payroll tax. Business payroll taxes go directly to INSAFORP who organizes training courses for workers and managers in a wide-range of subjects. Like many similar large tax-financed training institutions in Central America, INSAFORP has been criticized for supporting training with limited connection to private sector demand, for using outmoded training methods, and for bureaucratic inefficiencies.
- 1.5 The *Fundación para la Educación Integral Salvadoreña* (FEDISAL), a non-governmental organization with strong connections to the Salvadoran private sector, has developed an innovative proposal to pilot a private-sector-based model to match job openings with job seekers and workers to needed training. The proposal was developed with the collaboration and support of both the Ministry of Labor and INSAFORP. The Ministry of Labor has taken a leadership role in formally agreeing to transfer its public responsibilities for a national employment service to FEDISAL through a mutual agreement. The proposal builds on past experiences with employment services in the developed countries, but represents a significant departure from past efforts in its private-sector framework and application to a small, developing economy where such services may address specific short-term employment needs. The proposal of FEDISAL builds on a small, successful experience to place trainees in new employment developed under its consortium training project (ATN/MH-5167).<sup>2</sup> This experience showed a high level of private sector need and response to effective methods of matching workers to available jobs. The experience showed, however, that such services are too isolated to have a larger impact on the labor market without a national information and placement system. The proposed project would pilot a national training and labor market intermediation system to reduce transaction costs for firms, improve the match of employees to new employment, refer workers to appropriate training, and provide training institutions with up-to-date information on employer skill requirements.

## II. PROJECT BENEFICIARIES

- 2.1 The principal beneficiaries of the project would be private sector firms and workers in El Salvador directly utilizing the services of the national intermediation service. Private sector training institutions would also benefit by having a central resource to better place their trainees and receive referrals from workers requiring training.

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<sup>2</sup> The previous experience was more narrowly a single employment service only for those workers trained under the project, and as such, does not represent a pilot for a national service.

### III. PROJECT OBJECTIVES, COMPONENTS AND ACTIVITIES

#### A. Objectives

- 3.1 The general objective of the project is to improve the efficiency of the labor market in El Salvador and better meet private sector labor market needs. The project would do this through implementing and testing out a labor intermediation system to better match employers and potential employees and workers to needed training. The project's specific objectives are: (i) to design new instruments for a modern labor intermediation system (Component 1); (ii) test and implement this intermediation system (Component 2); and (iii) promote and consolidate this system in terms of services and national coverage (Component 3).

#### B. Project components

- 3.2 The project would have three principal components:

##### 1. Component 1. Design of Intermediation Services and Products

- 3.3 This component would finance the technical assistance needed to design the instruments and services to be provided by the private-sector managed intermediation service (to be called *Sistema de Intermediación para el Empleo (SIE)*). This component would include the design and refinement of the specific services to be offered by the SIE: (i) assessment: worker and firm profiles to assess needs/capabilities; (ii) employment matching service; (iii) training registry and matching service. Among the outputs would be: the formats for both the employment and training registries; the operating manuals and regulations needed to operate the network of offices and satellites; design of training programs for the personnel of the SIE, and design of the information data base and the electronic Web system to support the SIE

##### 2. Component 2. Implementation of the Intermediation Network

- 3.4 This component would staff and put into operation the network of offices and satellites that would deliver the defined services and products of the SIE. An innovative framework is contemplated. There would be three full-service offices of the intermediation service (one central office and two regional offices). The service would expand its reach overtime through developing private satellite offices – computer outlets or mini-offices – which would provide on-line access to the national service. The satellites would expand the range of clients accessing the national training and employment registries, but the one-on-one personalized services would be provided only at the full-service offices. The satellite offices would be established in institutions with particular demand for the intermediation service, e.g. training institutions, Chambers of Commerce. The project would initiate the establishment of a small number of satellite offices under written conventions between the national service and the local institution. These would include provisions for oversight of the operation of the satellite terminals and training. With continual refinement and monitoring, the satellite subsystem would

be intended, beyond the three-year pilot period, to enable the SIE to respond flexibly to growing demand with reduced costs.

### **3. Component 3. Promotion, Consolidation, and Monitoring of the SIE**

- 3.5 This component would include activities to promote and consolidate the SIE within the private sector and expand its coverage nationally. Training and development of a small cadre of industry promoters/facilitators is contemplated to work directly with key Salvadoran industries with particularized demand for the service. The service would maintain a monitoring and supervisory capacity of its clientele –the firms and workers– to enable the service to readily identify underserved populations and firms and to continually refine and update its products to meet the needs of its clients. This is part of a strategy to help insure the system meets the needs of both male and female workers and disadvantaged workers on an equivalent basis, contributing more fully to firm growth. Currently there is no system in El Salvador for developing and promoting labor competency standards to classify and certify job skills in the labor market. The Ministry of Labor has made a request for a separate pilot MIF operation to develop such standards in 2001. The development of skill standards would be complemented and reinforced through a SIE as it develops and consolidates over time.

## **IV. PROJECT COST AND FINANCING**

- 4.1 The total estimated cost of the project over three years is \$2.4 million. Of this sum, 70% is requested for MIF financing and 30% from national counterpart. The cash component of the national counterpart would be provided by INSAFORP, with the Ministry of Labor, FEDISAL, and INSAFORP providing a small amount of in-kind contributions. Consistent with MIF guidelines, no more than 50% of the national counterpart would be in-kind. User fees, including contributions from private sector firms utilizing the services of the centers will be developed under the project to contribute to its long-run sustainability. However, as per MIF policy, these contributions will not be counted towards national counterpart of the project.

## **V. EXECUTING AGENCY**

- 5.1 The proposed executing agency of the project is FEDISAL, (*Fundación para la Educación Integral Salvadoreña*). FEDISAL is a private, non-profit institution created in 1993 by prominent businessmen and members of the Salisian community to contribute directly to the economic and social development of El Salvador. As well as strong private sector support, FEDISAL has the strong support of the Ministry of Labor as the appropriate institution for the private development of intermediation services. In its project execution, FEDISAL has received particular recognition for the high standards and qualifications of its staff and work. FEDISAL has received particular recognition for the efficient execution of an earlier MIF project: “Private sector training consortium” whose

final disbursement was in 1999. Based on that experience, FEDISAL was requested by the Bank to execute a voucher training program for microenterprises: “Pilot Training Program for Microenterprises,” totaling \$870,000 over three years (approved Spring 2000). This current project proposal was one requested directly by the national entities, FEDISAL and the Ministry of Labor. It represents a unique proposal of a system which could greater application to Central America at large. Prior to the development of this abstract, the project team consulted the MIF office on proceeding with the proposal. FEDISAL is the only resident institution with the private sector reputation, experience, and institutional support to carry out a private-sector-based intermediation project. Institutional capacity to manage both the intermediation and voucher projects was examined and confirmed by a team of consultants and will be further elaborated in the Donors Memorandum for the project.

## **VI. EXPECTED PROJECT RESULTS AND JUSTIFICATION**

- 6.1 The project would pilot a national training and employment intermediation system whose intended results would include: to reduce transaction costs for firms, improve the match of employees to new employment, reduce unnecessary job turnover, refer workers to appropriate training, and provide training institutions with up-to-date information on employer skill requirements. These contributions are intended to improve the performance of the labor market serving El Salvador’s private sector, providing them with a skilled labor force more closely aligned to private sector requirements. The piloted system would recover an increasing proportion of costs from user fees, sustaining itself beyond the life of the project through fees and contributing support from public and INSAFORP resources.

## **VII. MAJOR ISSUES**

- 7.1 A key issue in this project is incorporating sound inter-institutional mechanisms for the cooperation and support of the Ministry of Labor and INSAFORP to get the maximum effectiveness out of the project (e.g. linkage of the project’s information base of INSAFORP, clear lines of authority for FEDISAL in managing labor intermediation as a private service). The project team, along with the key national actors, are in similar agreement to have these inter-institutional agreements and mechanisms in place as early as possible prior to execution to insure the best start for the project. A draft agreement between the Ministry of Labor and FEDISAL transferring responsibilities for managing a labor intermediation service has been drawn up and is expected to be signed soon. An inter-institutional agreement between FEDISAL-INSAFORP-Ministry of Labor governing inter-institutional cooperation and financing is also advancing on a positive basis. The project team intends to elaborate these accords and institutional relationships in the Donors Memorandum for the project.

### **VIII. RECOMMENDATIONS BY THE COUNTRY OFFICE**

- 8.1 The Country Office has been directly involved from the outset in the identification and analysis of this proposed project and its comments are reflected within the abstract and project design.

### **IX. ESTIMATED PROJECT PREPARATION AND ANALYSIS**

- 9.1 This project proposal is in a highly advanced state of preparation due to the design work done by the executing agent, FEDISAL, and the high level of participation of both the Ministry of Labor and INSAFORP. It is anticipated that the Donors Memorandum can be presented to the MIF Donors Committee for approval in 2000.

Approved: \_\_\_\_\_  
Jairo Sánchez, RE2/DEP

Date: \_\_\_\_\_