

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

REPUBLIC OF EL SALVADOR

**COMPREHENSIVE SUPPORT FOR EFFECTIVE LABOR AND
SOCIAL SECURITY POLICIES**

(ES-L1063)

LOAN PROPOSAL

This document was prepared by the project team consisting of Verónica Alaimo, Project Team Leader (SCL/LMK); Consuelo Ricart (LMK/CME); Jean Eric Theinhardt (ICS/CES); Taos Aliouat (LEG/SGO); Ethel Muhlstein (SCL/LMK); Karen Munguía (CID/CES); Mario Castaneda (FMP/CES); Santiago Castillo (FMP/CES); Aldo Ortega (SCL/LMK); Ana Lucía Barragán (SCL/LMK); Fernando Grafe (consultant); Laura Di Capua (consultant); and Ricardo Solari (consultant).

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ELECTRONIC LINKS	
REQUIRED	
1.	Annual work plan (AWP) for the first 18 months of execution http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36976897
2.	Monitoring and evaluation plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36976645
3.	Procurement plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36976732
4.	Environmental and social strategy (ESS) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=37035133
OPTIONAL	
1.	IDB: Country Strategy with El Salvador (document GN-2575) http://www.iadb.org/document.cfm?id=35283194
2.	Sector note http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36976772
3.	Brief note on occupational accidents http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=37021672
4.	Draft Operations Manual http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=37035822
5.	MTPS management and institutional diagnostic assessment http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36976784
6.	Report on the Institutional Capacity of the MTPS applying the ICAS methodology http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36952812
7.	MTPS Institutional Capacity Analysis Matrix http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36952086
8.	CONAMYPE Institutional Capacity Analysis Matrix using the ICAS methodology http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=36954916
9.	Economic Analysis Report on the 2012 Program http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36976801
10.	Progress monitoring report http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37041535
11.	Safeguard Screening Forms http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36980799

ABBREVIATIONS

ASI	Asociación Salvadoreña de Industriales [Salvadoran Industrialists Association]
AWP	Annual work plan
CONAMYPE	Comisión Nacional de la Micro y Pequeña Empresa [National Micro and Small Enterprise Commission]
CSU	Comunidades Solidarias Urbanas [Urban Solidarity Communities]
EAP	Economically active population
ECLAC	Economic Commission for Latin America and the Caribbean
EHMP	Encuesta de Hogares de Propósitos Múltiples [Multipurpose household survey]
GCI-9	Ninth General Increase in the Resources of the Bank
IFMS	Integrated financial management system
ILO	International Labour Organization
IRR	Internal rate of return
ISSA	International Social Security Association
ISSS	Instituto Salvadoreño de Seguro Social [Salvadoran Social Security Institute]
LIBOR	London Interbank Offered Rate
LGPRLT	Ley General de Prevención de Riesgos en los Lugares de Trabajo [General Workplace Risk Prevention Law]
MTPS	Ministry of Labor and Social Security
OM	Operating manual
PANEJ	Plan Nacional de Empleo Juvenil [National Youth Employment Plan]
PATI	Programa de Apoyo Temporal al Ingreso [Temporary Income Support Program]
SMEs	Small and medium-sized enterprises
SSMA	San Salvador Metropolitan Area

PROGRAM SUMMARY

REPUBLIC OF EL SALVADOR COMPREHENSIVE SUPPORT FOR EFFECTIVE LABOR AND SOCIAL SECURITY POLICIES (ES-L1063)

Financial Terms and Conditions				
Borrower: Republic of El Salvador		Flexible Financing Facility*		
		Amortization period:		25 years
		Original WAL:		15.25 years
		Disbursement period:		5 years
Executing agencies: Ministry of Labor and Social Welfare (MTPS) and Comisión Nacional de la Micro y Pequeña Empresa [National Micro and Small Enterprise Commission] (CONAMYPE).		Grace period:		5.5 years
Source	Amount US\$	Inspection and supervision fee:		**
IDB (Ordinary Capital)	20,000,000	Interest rate:		LIBOR
Other/Cofinancing	0	Credit fee:		**
Local	0	Approval currency:		U.S. dollars from the Ordinary Capital
Total	20,000,000			
Project at a Glance				
Objective and description: The objective is to improve the productivity of workers in El Salvador through changes in the coverage and effectiveness of employment, labor, and social security policies. The expected outcome is the achievement of this objective measured in terms of: (i) a percentage increase in sales per employee of participating micro and small businesses; (ii) a percentage increase in participating workers' income from their jobs and/or a percentage increase in formal employees (registered with the Salvadoran Social Security Institute (ISSS); and (iii) a reduction in the number of occupational accidents reported to the ISSS as a proportion of total ISSS contributors (see paragraph 1.13).				
Special contractual conditions precedent to the first disbursement, to the Bank's satisfaction: (i) approval of the Program Operations Manual; (ii) signature and entry into force of an agreement between the MTPS and CONAMYPE establishing their respective execution obligations (see paragraph 3.1).				
Special conditions precedent to disbursement of resources allocated for MTPS- executed activities: (i) the MTPS has in place the personnel described in paragraph 3.1, to the Bank's satisfaction.				
Special conditions precedent to disbursement of resources allocated for CONAMYPE-executed activities: (i) CONAMYPE has in place the personnel described in paragraph 3.1; and (ii) a funds-transfer agreement has been signed between the Ministry of Finance and CONAMYPE (see paragraph 3.1), to the Bank's satisfaction.				
Special disbursement. Once conditions (a), (b), (c), and (e) of Article 4.01 of the General Conditions of the loan contract have been fulfilled, the borrower may request a special disbursement of up to US\$200,000 for hiring the personnel mentioned in paragraph 3.1 and the purchase of furniture and equipment for said staff (see paragraph 3.2).				
Exceptions to Bank policies: None.				
Project qualifies as:		SEQ []	PTI [X]	Sector [X] Geographic [] Headcount []

* Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, and currency and interest rate conversions, subject in all cases to the final amortization date and the original weighted average life (WAL). When considering such requests, the Bank will take market conditions into account, along with operational and risk management considerations.

** The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors during its review of the Bank's lending charges, in accordance with the relevant policies. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Background and challenges

- 1.1 **Economic and demographic context.** El Salvador grew at a rate of 1.6% over the first quarter of 2012. Although this was an improvement on the last quarter of 2011, it falls short of the 1.9% to 2.5% range expected for this year. The modest expansion of the Salvadoran economy has been influenced by a negative external environment, with low growth in the global economy, and risks of a deterioration due to the crisis affecting Europe. Between 2010 and 2011 El Salvador grew at a rate of 1.4%. Since 2009 the international crisis has affected the country through: (i) a drop in exports; (ii) a decline in gross fixed capital formation (drop in construction); and (iii) reduction in remittance flows from relatives abroad. This situation is perceived by the Salvadoran population, who consider that the main problems today are crime, the economy and unemployment (IUDOP, 2012).¹ For its part, the country's private sector perceives problems relating to utility infrastructure and increasing fiscal pressure (rising tax rates).² El Salvador has a population of 6.2 million, of whom 63% live in urban areas and 27% in the San Salvador Metropolitan Area (SSMA).³ The economically active population (EAP)⁴ accounts for 45% of the urban population and 48% of that of the SSMA. Young people ages 16 to 29 make up 25% of the urban population (and of the SSMA) and 31% of the SSMA's EAP.
- 1.2 **Diagnostic assessment of labor and productivity in El Salvador.** El Salvador's slow growth in recent years has limited its capacity to create jobs and generate sufficient incomes for large sectors of the population. This has led to a migratory flow out of the country, softening the economy's impact on unemployment levels.⁵ The unemployment rate was below the region's urban average (6.7% compared with 7.3% for Latin America), but the level of informal employment and underemployment (50% and 29%, respectively) indicates that the jobs created are

¹ Instituto Universitario de Opinión Pública [University Institute of Public Opinion] (IUDOP) Universidad Centroamericana, El Salvador. May 2012. Press release, year XXVI, No. 3. Table 4. http://www.uca.edu.sv/publica/iudop/archivos/boletin3_2012.pdf

² Entrepreneur's perceptions in Doing Business, El Salvador, (2012) and Enterprise Surveys (2010).

³ Data from the Multipurpose Household Survey (EHPM) 2010. Data from the technical secretariat of the presidency (STP) show the rapid process of urbanization in the country: the urban population jumped from 48% to 65% between 1991 and 2008.

⁴ The Dirección General de Estadísticas y Censos [Statistics and Census Department] (DIGESTYC) bases this on the population over 16 in order to estimate the working age population (WAP) and EAP. This definition is used here.

⁵ World Bank (2012). Better Jobs in Central America: The Role of Human Capital. Mimeo.

low quality.⁶ Women and young people in El Salvador have the greatest job placement difficulties.⁷ Although the female unemployment is low (5.1% compared with 8.4% for men),⁸ the female participation rate is also low (47.3% compared with 80.9% for men), as a result of the larger proportion of women doing unpaid domestic work.⁹ Unemployment, informal work and underemployment affect the young more than older workers in the SSMA and urban areas as a whole.¹⁰ Fourteen percent of young people in work in the SSMA are self-employed, and 59% of these are women, and 18% report income of less than the minimum wage. The factors identified as underlying young people's difficulty entering the job market include low level of education, social exclusion, lack of work experience, and scarcity of opportunities.¹¹

- 1.3 The low rate of job creation may be associated with medium-term factors, such as factor productivity, and particularly labor productivity, as well as the cyclical weakness of macroeconomic growth. Like the rest of the region, El Salvador's economy is characterized by its low productivity. Various factors affect the dynamics of productivity, ranging from institutional factors or the rules of the game, to the quality and quantity of human capital.¹² Interventions to boost the institutional capacity of the public and productive sectors are therefore warranted, as are efforts to improve the labor force's know-how and opportunities. The evidence also suggests that there is a close relationship between productivity and firm size. In El Salvador, manufacturing firms that employ 20 to 49 workers are 50% more productive than those with a workforce of 10 to 19 employees. Firms with between 50 and 99 workers are almost twice as productive, and those employing over a 100 workers are 150% to 180% more productive.¹³ When other sectors of the economy are taken into account in which there is a higher prevalence

⁶ Informal jobs are defined as employees who do not contribute to the social security system (if the self-employed are also considered informal workers, the rate rises to 72%). Underemployment is defined by days worked (working less than 40 hours a week, but wanting to work longer) or income (working at least 40 hours a week, but obtaining income less than the current minimum wage) and is measured at the urban level. According to the EHPM 2010, although 93% of the EAP is working, only 60.8% is fully employed, while the remaining 22.6% receives insufficient income for the work they do (underemployment by income) and 6.3% are unable to find work full time (involuntary part-time work).

⁷ Employment is understood here to include both working for an employer and entrepreneurship or working for associations (cooperatives).

⁸ This pattern of unemployment between men and women differs from that of the region, as according to ECLAC data, the average urban unemployment rate for the female population is approximately one percentage point higher than that for males.

⁹ According to EHPM 2010, 67.9% of economically inactive women devote their time to housework.

¹⁰ According to EHPM 2010, young people 16-29 vs. adults: unemployment (13% vs. 4%), informal work (61% vs. 55%) and underemployment (7% vs. 6%). The difference is wider in the SSMA.

For more details, see Sector note. [IDBdocs-#36976772](#).

¹¹ International Labour Organization (ILO), Mimeo 2011.

¹² See Acemoglu, Johnson and Robinson, 2005; North 1990; Lucas, 1988; Hanushek and Wöbmann, 2007.

¹³ Pagés, 2010, "La era de la productividad" [The age of productivity]; and Busso, Madrigal and Pagés, 2012.

of microenterprises, and street vendors, the distortions in the economy due to low productivity are even more pronounced. According to the 2010 Multipurpose Household Survey (EHMP), 66% of workers are employed in firms with a workforce of between 1 and 10, and 24% work alone. Many workers and their families lack access to benefits (health insurance, pensions, protection against occupational accidents) and also earn wages below the legal minimum. These phenomena are interrelated, as on average, less productive firms offer less stable jobs.¹⁴

- 1.4 Small companies also have less capacity and/or fewer incentives to innovate or train their employees, and thereby raise their productivity. According the 2005 El Salvador manufacturing census, 82% of firms in the sector were microenterprises (10 employees or less). However, they only employed 17.7% of the sector's workers. Firms with more than 100 employees accounted for 2.9% of all firms, but 59.7% of all jobs (Pagés, 2010). According to calculations based on the Enterprise Surveys (2010), no firms with less than five employees ran a formal staff training program last fiscal year, whereas 44% of firms with 5 to 19 employees did, as did 73% of firms with 20 to 99 employees, and 90% of those with over 100 employees.
- 1.5 According to the International Labor Organization (ILO), the economic burden of occupational accidents and illness is 4% of global GDP. According to the International Social Security Association (ISSA), health and safety at work are an essential part of human capital formation and promoting competitiveness and innovation capacity. That is to say, an effective occupational health and safety system brings positive benefits not only for employers and employees but for society as a whole. The ISSA (2011)¹⁵ ratifies these principles and urges labor ministers to advocate making occupational safety a priority on the national agenda. In El Salvador, the occupational accident figures only represent accidents reported to the Instituto Salvadoreño de Seguro Social [Salvadoran Social Security Institute] (ISSS), which in 2011 recorded 19,016 occupational accidents, equivalent to 2.6% of its contributors that year. This figure rises to 4.6% in the case of construction workers, a sector with high levels of informal employment. These figures do not include accidents affecting informal workers, or other non-accident-related occupational risks.¹⁶

¹⁴ See Pagés, 2010; and Busso, Fazio and Levy, 2012.

¹⁵ XIX World Congress on Health and Safety at Work, September 2011, Istanbul. See note on Occupational Accidents. [IDBdocs #37021672](#).

¹⁶ This source of information is not comparable with other countries. Hämäläinen, Leena Saarela, and Takala (2009) have developed a model with which to estimate occupational accident rates by country and region as a percentage of total employment. With data from 2003, they estimate an accident rate in El Salvador of 15.1%, which is slightly above the average of 14.4% for the region.

- 1.6 **Institutional diagnostic assessment.**¹⁷ The Government of El Salvador, through its Ministry of Labor and Social Security (MTPS) has difficulties tackling the labor market challenges mentioned above, as it has institutional weaknesses preventing it from fulfilling its remit, which includes: (i) steering (standard setting) and regulation of the sector; (ii) policy formulation, implementation and evaluation; and (iii) program administration and execution. Although the legislation¹⁸ gives the MTPS a pivotal role in steering the sector, in practice this is not clearly recognized by the various different actors in what is a highly fragmented institutional context (comprising the ISSS, the Salvadoran Professional Training Institute (INSAFORP) and the Pension Fund Administration (AFP)). Moreover, policy formulation requires that the MTPS be able to obtain and/or produce high value-added information, and that it have the capabilities and mechanisms in place to plan, monitor, and evaluate policies. Policy formulation initiatives currently take place ad hoc, based on the limited management data produced by the various departments, and in response to requests from the authorities, which in turn are often formulated in response to urgent needs. The objectives set in these work plans do not incorporate impact indicators, and in most cases the targets correspond to activities to be carried out and/or outputs to be obtained. Moreover, plan and program administration and execution requires clear working processes and integrated IT management systems, among other things, to measure results. The MTPS lacks these tools. It is therefore considered that all activities carried out with a view to delivering “outputs,” such as inspections, employment promotion, labor intermediation, conciliation, etc. are supported by work processes with scant standardization and a lack of procedure manuals and functions enabling work flows to be established. These issues are reflected in the MTPS's key processes, and have a direct impact on the institution's central areas of operations, affecting both the effectiveness of its institutional mission, and efficiency in the use of allocated resources.¹⁹ The MTPS's budget is mainly devoted to recurrent expenses and has not increased to meet new commitments, such as the implementation of the General Workplace Risk Prevention Law (LGPRLT) and the National Youth Employment

¹⁷ These paragraphs are based on the report by Grafe, Fernando (2012) “Diagnóstico institucional del MTPS” [Institutional diagnosis of the MTPS] [IDBdocs-#36976784](#).

¹⁸ Ley de Organización y Funciones del Sector Trabajo y Previsión Social [Law on the Organization and Functions in the Labor and Social Welfare Sector] (LOFSTPS), Decree 682/1996. This law defines the labor and social welfare sector as covering “labor, employment, occupational health and safety, work environment, social protection and welfare, vocational training, social security, and cooperatives” (Art. 2). Other laws also govern the MTPS powers in other institutions, in particular the Ley del Seguro Social [Social Security Law] and Ley del Instituto Salvadoreño de Formación Profesional [Law on the Salvadoran Professional Training Institute] (INSAFORP).

¹⁹ Despite the difficulty of obtaining reliable management indicators, there is evidence that the MTPS's activity is inadequate in terms of the coverage and effectiveness of its policies. It can be estimated from MTPS and EHPM data that the Employment and Social Security Directorate, through its employment offices, attends to an average of 1.9% of the EAP (27% of the unemployed), with a placement rate of 13% (15% for men and 11% for women); in addition, during 2010 it carried out 9,955 occupational health and safety inspections, covering 304,755 workers (12.7% of the employed population). The Labor Inspectorate carried out 25,350 inspections, covering 195,165 workers (8.1% of employed persons).

Plan (PANEJ)—drawn up with ILO assistance—or compliance with the Access to Information Law.²⁰

- 1.7 The National Micro and Small Enterprise Commission (CONAMYPE)²¹ has the mission of strengthening and developing micro and small businesses through synergies to foster competitiveness and actively contribute to national growth through job creation and income generation. It has experience providing technical assistance to micro and small businesses, and in entrepreneurship programs for vulnerable groups. In particular, it recently collaborated on the implementation of two initiatives in the municipios of San Martín and Ahuachapán, accompanying the Comunidades Solidarias Urbanas (CSU) Income generation program. However, it does not yet have systems to monitor and evaluate the outcomes of its interventions. Nor does it conduct impact assessments on them.²²
- 1.8 **The Government of El Salvador's responses in the sector.** The Government of El Salvador's 2010-2014 Five-year Development Plan includes a production development strategy with the aim of “national productive transformation facilitating the transition towards a new stage of development, with a particular focus on small and medium-sized producers and entrepreneurs, stimulation of new sectors, fostering partnering, and promoting innovation and commitments to production in developing regions.”²³ In 2012 the government announced the financing of FOMILENIO II²⁴ targeting the country's coastal/maritime region. The first axis of this initiative will comprise investments in human capital.²⁵ The MTPS's five-year plan also envisages various lines of action, in particular: (i) the Temporary Income Support Program (PATI), created in response to the 2008-2009

²⁰ Its budget in 2012 was US\$13.3 million (92% of which was spent on operating costs and remuneration), equivalent to 0.6% of the Executive Branch's budget and 0.3% of the Central Government budget. Although in absolute terms the MTPS's budget has risen slightly each year (US\$11.7 million in 2010, US\$12.6 million in 2011), it has remained stable as a share of the Executive Branch's and Central Government's budget.

²¹ CONAMYPE was created by Executive Decree 48 on 8 May 1996 and has been under the Ministry of the Economy since July 1999. Its mission is to “strengthen and develop micro and small businesses so as to achieve economic development that is fair, democratic, sustainable and gender focused throughout the country, in order to create synergies boosting competitiveness and contribute actively to the country's growth by creating jobs and generating income.”

²² CONAMYPE has prepared a report describing the execution of the CSU pilots, but it does not use an impact methodology, or a comparison or control group to evaluate the results of these interventions. See [IDBdocs-#36980369](#)

²³ Five Year Development Plan (PQD): [133.]

²⁴ FOMILENIO is an institution created for a specific period, with the purpose of administering and supervising execution of the work program with a grant from the Millennium Challenge Corporation. The first FOMILENIO was approved in 2005 and focused on the north of the country.

²⁵ As FOMILENIO II will devote a significant volume of resources to human capital strategies in the country's marine-coastal strip, the government has requested that this loan prioritize municipios in the SSMA and coordinated actions are anticipated. No details are yet available regarding the human capital initiatives to be funded through FOMILENIO II, but the counterpart technical team for the operation is also the counterpart for the other project, so it is expected that it will be possible to coordinate interventions.

economic crisis and financed by the World Bank; (ii) institutional strengthening activities; (iii) support for setting quality employment policies;²⁶ (iv) the implementation of the LGPRLT; and (v) setting up an internship program for young people. Since 2009 the MTPS has worked with other government institutions and the World Bank to implement the PATI. This has included creation of a labor observatory and equipment (furniture, computers) for employment offices in the municipios in which it operates. The Government of El Salvador recognizes that the PATI served as a short-term measure to provide vulnerable groups (women and young people) with an income for six months, but did not generate income opportunities beyond the end of the program.²⁷ It is therefore redesigning the program to include employment training modules enabling the participants to develop their technical skills. Through the MTPS, CONAMYPE and local governments, it has also run entrepreneurship pilots for former beneficiaries of the PATI, to support sustainable income generation. Moreover, the MTPS is working on the implementation of the LGPRLT and the PANEJ (a plan based on three axes: jobs, employability (training) and entrepreneurship). However, it lacks sufficient resources to execute the associated commitments.²⁸

- 1.9 **Bank support in the sector.** The Bank has been supporting the Salvadoran government with technical assistance in the labor market and business development areas through MIF technical cooperation operations. This has included the “Pilot Training Program for Microenterprise” (MIF/AT-328) which stimulated investments in training and matching supply to microenterprises’ real needs in the east of the country. The training and support market geared to microenterprise’s needs was stimulated using a system of vouchers (a partial subsidy mechanism). Another technical cooperation operation was “Labor market intermediation services” (ATN/MH-7496-ES), which laid the groundwork for the employment services of the MTPS and its local offices. By the same token, technical cooperation operation “Technical strengthening of the Ministry of Labor and Social Security of El Salvador” (ATN/SF-11900-ES) provided the MTPS with technical advice, legislative amendments (LGPRLT) and proposals for compliance with labor standards in international treaties, and the development of labor training lines for export firms.²⁹ Moreover, the technical cooperation operation “Assessment of the public pension system” (ATN/SF-11951-ES) supported the Pensions Department on fiscal sustainability issues, analyzing the public pension system’s benefits management, and the “Longitudinal social protection survey” (ATN/OC-12774-RG) financed the design of a social protection survey in several

²⁶ This includes a gradual process of formalization and improved job placement for vulnerable groups.

²⁷ This information was gathered from interviews with officials.

²⁸ The MTPS is working with the World Bank to implement PANEJ’s employability line of action, with a classroom training and business internship program. This intervention will be similar to the “Mi Primer Empleo Digno” [My first decent job] program in Bolivia. See [link here](#).

²⁹ Program to Support Production Development in El Salvador. Loan 2583-OC/ES.

countries of the region, including El Salvador.³⁰ Lastly, “Support for Employability in El Salvador” (ATN/FG-13418-ES), which supports the present program, and “Support to the institutional strengthening of the MTPS” (ATN/FI-13301-ES) have been approved.³¹

- 1.10 **Bank’s country strategy and GCI-9.** The 2010-2014 country strategy (document GN-2575)³² includes labor issues in the priority area of “social protection.” The country strategy recognizes the low coverage of training and labor intermediation programs and the need to work on preventing risks in the workplace. The expected outcomes of the country strategy are: (i) increasing coverage of labor intermediation programs; and (ii) reducing the number of accidents in the workplace. These outcomes are aligned with the sector priority of “social policies for equity and productivity” set out in the GCI-9 (document AB-2764) relating to the improved functioning of labor markets to boost productivity and social security coverage. The employment and social security policies supported with this operation are converging to achieve the expected outcomes of the country strategy and GCI-9.

B. Rationale for the loan

- 1.11 The diagnostic assessment set out in the previous section identifies three development challenges that this operation aims to address: (i) the low productivity of active workers, in terms of underemployment, informal work, and lack of job security and occupational health; (ii) high unemployment and dependency rates among young people; and (iii) institutional weaknesses of the government, and in particular the MTPS, which are hindering resolution of these problems. To meet these challenges, two complementary approaches need to be reconciled. Firstly, it is necessary to support the productive sector, which is where jobs and opportunities for economic growth for workers and the economy in general need to come from. Secondly, workers and young people trying to enter the job market need support to improve their training and their job opportunities and working conditions. Implementing this type of effort requires a stronger public sector, with the capacity to manage scarce resources through information systems that track the actions performed, prioritizing those interventions that prove most successful for the country’s development. The Bank’s experience in other countries of the region³³ makes it advisable to start with small, gradual interventions, so as to build up evidence and lessons learned, so that successes can be scaled up, and less successful initiatives improved. Bearing in mind other interventions by the Government of El Salvador (FOMILENIO II, operations with the World Bank,

³⁰ The design includes the development of a common methodology for the participating countries to implement a regional information system in the social security area, and promoting the implementation of a regional social protection observatory.

³¹ The technical cooperation operation, which will be executed by the MTPS, has arisen out of an urgent request by the MTPS for support implementing the LGPRLT, which came into force in May 2012.

³² See optional link 1.

³³ See, for example, the project completion report on loan 851/OC-PR, Paraguay, [IDBdocs-#554561](#).

other donors, and other IDB operations),³⁴ this operation will prioritize actions in SSMA municipios, where much of the country's population and urban EAP is concentrated. This operation also seeks to promote the application of a development areas approach and coordinate government action to meet the demands of the productive sector and its workers.³⁵

- 1.12 In light of the foregoing, this operation aims to support the productive sector by improving its capacities and those of its workers; reducing the cost of filling vacancies and training new workers, and gearing public resources to workplace risk prevention. At the same time, this support translates into improvements for Salvadoran workers and young people trying to join the labor market. Additionally, it seeks to support young entrepreneurs by identifying potential market niches for inclusion in productive chains, with training in business and vocational topics and with economic support to get the business running.³⁶ As a cross-cutting activity the operation will aim to equip the government with the tools it needs to support the productive sector and workers in these processes by strengthening its steering and regulatory role in the labor sector; creating platforms for social dialogue to bring the government, productive sector, and workers together; building institutional capacity for resource management; and implementing information and administration systems able to generate monitoring indicators and measure results, facilitating decision making, and stimulating both social dialogue and management. Finally, the operation will produce evidence that will allow successful interventions to be enhanced and scaled up.

C. Objectives, components, results, and cost

- 1.13 **Objective.** The objective is to improve the productivity of workers in El Salvador through changes in the coverage and effectiveness of employment, labor, and social security policies. The expected impact is the achievement of this objective measured in terms of: (i) a percentage increase in sales per employee of participating micro and small businesses; (ii) a percentage increase in participating workers' income from their jobs and/or a percentage increase in formal employees

³⁴ Loan 2375/OC-ES "Urban Solidarity Communities," targeting selected municipios and with a youth violence prevention component, is awaiting ratification by the Assembly. ES-L1066 "Environmental Tourism Development of the Coastal Strip" in the 2013 pipeline, aligning support in FOMILENIO II areas. Loan 2583/OC-ES "Program to Support Production Development for International Integration" (pending ratification by the Assembly) and operation ES-L1058 "Innovation for Competitiveness Program" support a more consolidated segment of firms than this operation is expected to address. Operation ES-L1025 "Support for Citizen Security Strategy," includes a training program on a culture of peace and job placement for at-risk youths in SSMA communities. See comparison of operations [IDBdocs-#37039560](#).

³⁵ Five Year Development Plan (PQD): [133.].

³⁶ Evaluations of results of a MIF project on entrepreneurship in El Salvador (ATN/MH-8511-ES) points to positive results and offers lessons learned for the design of new programs.

(registered with the ISSS);³⁷ and (iii) a reduction in the number of occupational accidents reported to the ISSS as a proportion of total ISSS contributors. The objective is to be achieved through three components:

- 1.14 **Component I. Comprehensive actions to develop the productive sector (US\$5.73 million).** This will focus on improving worker productivity among employees of micro and small businesses, by cofinancing training activities and promoting good practice regarding workplace risk prevention. **Subcomponent I.1. Cofinancing of comprehensive onsite staff training actions.** To be executed by CONAMYPE in coordination with the MTPS. It will have an estimated coverage of 1,360 micro and small enterprises in the SSMA³⁸ and will finance: (i) contracting business promoters to conduct a diagnostic assessment of firms' training needs and agree on a training plan with specific targets with them;³⁹ (ii) cofinancing of training providers for the implementation of the agreed training plan;⁴⁰ (iii) training, furniture and computers for the promoters and CONAMYPE staff; and (iv) setting up and maintaining an information system to keep records on training providers. The aim is to support the productive sector, facilitating its access to knowledge, and helping to improve its capacity for management and competitive integration in markets, as a mechanism to improve working conditions and workers' welfare. In the case of informal firms, the action plan will include support for their formalization. López Acevedo and Tan (2010) have estimated the impact of programs for small and medium-sized enterprises (SMEs) in Mexico, Chile, Peru and Colombia, using non-experimental methods and panel data. They find statistically significant impacts from participation in programs for SMEs in terms of sales and positive impacts on other business performance measures (including jobs and wages).⁴¹ Although the main aim of these programs is not to create jobs, they are often implemented in the hope that they will lead to job creation, or at least not

³⁷ The impact indicator is the same as for the three programs described below, but the target varies according to the characteristics of each program. In the first case, the treatment is at the company level and it is expected that later this treatment will have an effect on its workers. A smaller impact is therefore estimated than that expected from other programs aimed at young people.

³⁸ According to the 2011 directory of businesses there are approximately 13,415 micro-enterprises (up to 10 employees) in the SSMA, and 3,293 small businesses (11 to 50 employees); i.e. the program will reach just under 8% of the target population. During execution, priority will be given to sectors with the greatest growth potential and the firms in these sectors.

³⁹ The business promoters will be hired during the execution period. The evidence suggests the importance of involving the productive sector in the process, as it is entrepreneurs who best understand the reality of their daily situation and the context in which they operate. See PCR Panama ([IDBdocs-#35514609](#)), Midterm evaluation ([IDBdocs-#35299544](#)). World Bank (2007): Evaluating Mexico's Small and Medium Enterprise Programs. CONAMYPE (2010) 2010-2014 Strategic Plan.

⁴⁰ The program will cofinance up to 80% of up to 120 hours of training services per company per year. Similar programs in Mexico and Panama have shown positive results with interventions of this size.

⁴¹ The results vary from one country to another and by program characteristics, and must be interpreted with caution, due to the biases that arise from company's non-random self-selection on the programs, and from using panel data over longer periods to measure business's performance impacts which can only be perceived after a time lag.

result in job losses. Castillo, Maffioli, Rojo and Stucchi (2011) have evaluated this hypothesis using data from a program cofinancing technical assistance to SMEs in Argentina, using panel data and data pairing techniques. They find that this program created more and better jobs, and in some cases, higher wages. The expected outcome of this subcomponent is that, at the end of the loan, the performance of the participating firms will have improved, measured in terms of: (i) the percentage of participating firms fulfilling the training targets; and (ii) the increase in sales per employee. **Subcomponent I.2. Public-private partnership on workplace risk prevention.** This will be executed by the MTPS through agreements with business associations.⁴² It will have an estimated coverage of 15,500 businesses country-wide⁴³ and will finance: (i) consulting services to identify labor risks, systematize lessons learned by each sector (as the risks vary significantly from one sector to the next, but are shared within a given sector, such as construction, the textile industry, or commerce) and run promotion, dissemination, and awareness-raising activities on occupational health and safety; (ii) developing an information system with statistics to track occupational accidents by sector; and (iii) designing and implementing an award scheme to incentivize good practices. Sector associations signing agreements with the MTPS will collaborate by offering their facilities, sector-specific experience, and communications channels to reach firms. Loan resources will not be transferred to business associations. The recent implementation of the LGPRLT represents a major challenge for businesses, upon which more obligations have been placed at a time when the economic context is unfavorable, against the backdrop of the latent risk of natural disasters. The loan therefore aims to support the productive sector with advice on how to prevent risks in the workplace, and actions to improve workers' welfare, among other things, and signage to facilitate evacuation of buildings in the event of a natural disaster.⁴⁴ The expected outcome is a reduction in the number of accidents in the workplace, measured as the number of occupational accidents reported to the ISSS as a proportion of the number of ISSS contributors.

- 1.15 **Component II. Comprehensive job placement actions for young people (US\$6.87 million).** This component focuses on supporting improvements in productivity among young people ages 16 to 29⁴⁵ through implementation of the PANEJ employment and entrepreneurship lines of action. The program will prioritize actions in SSMA municipios, but may support actions at the national

⁴² See the MTPS-ASI agreement at [IDBdocs-#36980385](#). It is anticipated that similar agreements will be signed with other business associations.

⁴³ According to DE 2011, at the national level there are 25,140 companies of all sizes; the program will reach 60% of the target population. Firms belonging to sectors whose business associations have signed agreements with the MTPS will be eligible.

⁴⁴ The international evidence highlights the importance of investing in risk prevention. According to ISSA (2011), cost-benefit analysis studies give a ratio of 1:2.2 for investments in risk prevention. For more details, see [link here](#).

⁴⁵ These interventions will be publicized through campaigns and employment fairs. Young people will be served on a first-come, first-served basis.

level. **Subcomponent II.1. Job placement for young people.** This will be executed by the MTPS and aims to place some 6,000 young people in businesses' actual vacancies.⁴⁶ To this end, it will finance: (i) a stipend of up to 50% of the current minimum wage, a stipend for transport, and for mothers of one or more children, a fixed sum for childcare for up to three months; (ii) design and implementation of a private-sector linkage strategy, to promote and raise awareness about youth and gender equity issues and place young people in firms; (iii) contracting of business managers who will be assigned to MTPS employment offices and who will visit firms and support the linkage strategy;⁴⁷ (iv) training, furniture, and computers for the business managers; (v) design and implementation of an employment portal with employment information to attract young people to employment offices and bring them into the program; (vi) setting up and maintaining a toll-free number; (vii) psychometric licenses to improve assessment and guidance for young people and other users of employment offices; (viii) design and implementation of a communication and dissemination strategy for the program and its results; and (ix) employment fairs. Firms receiving young participants will pay at least 50% of the current minimum wage, including employer's contributions (ISSS and pensions); the MTPS intends to sign hiring commitments with firms to ensure that vacancies respond to businesses' actual recruitment needs and that the young people taking part will perform duties for which they will subsequently be hired.⁴⁸ Although the evidence is limited in terms of the quality of evaluations, there is positive evidence regarding onsite training (Gonzalez-Velosa, Ripani and Rosas, 2012).⁴⁹ The expected outcome is that young people participating in the intervention will have a formal job at the end of it. **Subcomponent II.2. Access to entrepreneurship opportunities.** This will be executed by CONAMYPE and aims to identify, train and provide economic support to around 1,600 young people with an entrepreneurial profile, either in the form of individual entrepreneurship or partnering in groups.⁵⁰ The following will be financed: (i) contracting of promoters,

⁴⁶ According to the EHPM 2010, there are 32,000 unemployed young people in the SSMA. The metropolitan area also has 5,000 self-employed, and 60,000 wage-earners on less than the minimum wage (of wage-earners, 28,500 work full time). The program will therefore address approximately 5% of the target population. For more details, see sectoral note. [IDBdocs-#36976772](#).

⁴⁷ The business managers will be hired during the execution period.

⁴⁸ These placement commitments have proven successful in other countries, such as Panama, and are being incorporated into other programs such as "Juventud y Empleo" [Youth and Employment] in the Dominican Republic. See González-Velosa, Ripani and Rosas (2012).

⁴⁹ "Jóvenes en Acción, Colombia" (Attanasio et al., 2011) and "Projovent, Perú" (Chong and Galdo, 2006) show a positive impact.

⁵⁰ At least 2,200 young people will be identified to take part in diagnostic activities over three months. There are expected to be drop-outs during the program. It is estimated that at least 1,600 young people will proceed to the entrepreneurship training and business ideas stage, part time, which has a duration of four months. This will be followed by a competition to select the business plans that are to receive seed capital; it is anticipated that business plans for around 600 young people will be financed (equivalent to less than 1% of the SSMA target population). See [IDBdocs-#36980338](#) for details.

who will identify, train and monitor the young participants;⁵¹ (ii) training, furniture, and computers for the promoters and CONAMYPE staff; (iii) consulting services to identify local actors and analyze the local market and potential; (iv) a transport stipend for participants starting training activities, and a fixed sum for childcare for mothers of one or more children; (v) of those presenting a potentially successful business plan, seed capital of up to US\$400 per young person and a stipend of up to 50% of the current minimum wage for three months. The stipend is intended to reduce the likelihood of participants dropping out while still setting up their venture because they need a source of income.⁵² The intervention will have an estimated duration of 12 months; then, the young people will be referred to the Centros de Desarrollo de Micro y Pequeñas Empresas [Micro and Small Enterprise Development Centers] (CDMYPE) for monitoring. Although there is almost no rigorous evidence of results from entrepreneurship programs, similar microcredit programs have been run, with positive impacts on participants' incomes.⁵³ The expected outcome is that the young participants keep their entrepreneurial activity going after the intervention.

- 1.16 **Component III. Institutional strengthening of the MTPS and the sector (US\$5.22 million).** This component will be executed by the MTPS through three subcomponents. **Subcomponent III.1 Strengthening of the MTPS's steering role.** This aims to strengthen the MTPS's role in steering and regulating the sector. It will finance: (i) preparation of preliminary draft legislation; and (ii) workshops to create platforms for social dialogue concerning the revision of legislation and regulations. **Subcomponent III.2. Enhancement of the MTPS's substantive processes.** The redesign, implementation and monitoring of the key processes for the MTPS's functioning (comprehensive inspection; risk prevention; labor conciliation; fostering employment) is envisaged. **Subcomponent III.3. Enhancement of the administrative support processes.** This aims to redesign, implement, and monitor the MTPS's administrative management and integrated information system. To this end, subcomponents III.2 and III.3 will finance: (i) consultants to design new management models and redesign working processes, implement these designs and redesigns, train MTPS staff involved in each process, and prepare procedural guides and training materials to ensure the continuity of the changes made; (ii) development of an integrated information system allowing the production and tracking of monitoring indicators used in decision-making;⁵⁴ (iii) hiring of technical support staff for the information systems; and (iv) equipment, software, licenses, furniture, and vehicles to conduct work

⁵¹ The business promoters will be hired during the execution period.

⁵² Monitoring while the venture is being started up will include advice on formalization.

⁵³ In microcredit programs similar to this one (in terms of the amount of seed capital and participant profile), evaluations find impacts on participants' incomes that vary from 28% to 200% (see economic analysis, [IDBdocs-#36976801](#)). The difference lies in the fact that, unlike the microcredits program, this program does not require that the seed capital to be returned, which could result in moral hazard among the participants. See Risks Matrix.

⁵⁴ The technical support staff will be hired during the loan execution period.

inspections in companies nationwide. The expected outcome of the component will be measured through an increase in preventive activities by the labor inspectorate, by a reduction in the percentage of inspections leading to sanction procedures (total sanctions/total inspections).

- 1.17 **Administration, monitoring, and evaluation.** Loan proceeds will be used to finance: (i) the hiring of professional services for the MTPS and CONAMYPE (see paragraph 3.1); (ii) the hiring of a monitoring and evaluation specialist in each institution; (iii) equipment and furniture for said personnel; (iv) midterm evaluations of results; and (v) impact assessments of Subcomponents I.1, II.1, and II.2.
- 1.18 **Cost and financing.** The cost of the program is US\$20 million, which will be financed by the Bank from its Ordinary Capital.

Table I.1 – Budget (US\$ and percentage)

Component / subcomponent	IDB	%
I. Comprehensive actions to develop the productive sector	5,728,460	29%
I.1 Cofinancing of comprehensive onsite staff training actions (CONAMYPE)	4,628,460	23%
I.2. Public-private partnership on workplace risk prevention (MTPS)	1,100,000	6%
II. Comprehensive job placement for young people	6,874,040	34%
II.1. Job placement for young people (MTPS)	4,746,000	24%
II.2. Access to entrepreneurship opportunities for young people (CONAMYPE)	2,128,040	11%
III. Institutional strengthening of the MTPS and the sector	5,216,100	26%
III.1. Strengthening the MTPS's steering role	285,000	1%
III.2. Enhancement of the MTPS's substantive processes	2,452,700	12%
III.3. Enhancement of the administrative support processes	2,478,400	12%
Program administration	774,000	4%
MTPS	387,000	2%
CONAMYPE	387,000	2%
Monitoring and evaluation (processes, results, impact)	838,000	4%
MTPS	346,000	2%
CONAMYPE	492,000	2%
Accounting and management audits	200,000	1%
MTPS	200,000	1%
CONAMYPE	0	0%
Contingencies	369,400	2%
MTPS	269,400	1%
CONAMYPE	100,000	1%
Total	20,000,000	100%

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financial instruments

- 2.1 This is a specific investment loan from the Bank's Ordinary Capital under the terms of the new Flexible Financing Facility (FFF) (document FN-665-1). The amount of the loan is US\$20 million, and the planned disbursement period is five years.

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

	Year					Total
	1	2	3	4	5	
Total	4,749,034	5,085,316	4,158,983	3,512,987	2,493,680	20,000,000

Note: The first year has been estimated based on the AWP for the first 18 months.

B. Environmental and social risks

- 2.2 **Environmental and social risks.** The nature of this program is such that it does not involve activities producing negative environmental and/or social impacts. This is classified as a category "C" operation. This program contributes to objective (ii) Poverty Reduction and Promotion of Social Equity Strategy (OP-1002, paragraph 4.2.19),⁵⁵ to support comprehensive poverty reduction strategies (see Environmental and Social Strategy).⁵⁶ Medium execution risk was identified, associated with the high levels of insecurity; this will be mitigated, *inter alia*, through coordination with local governments.

C. Fiduciary risks

- 2.3 **Fiduciary issues.** The analysis of both the MTPS's and CONAMYPE's institutional capacity indicates medium development, and an associated risk that is also medium. Noncompliance with the procurement plan and annual work plan (AWP) are the potential sources of fiduciary risk. The proposed mitigation measures include strengthening the financial and procurement units with specialized staff in each of the executing agencies. Interagency coordination mechanisms would also be established and procedures, roles and responsibilities laid out in the Program Operations Manual.

D. Other risks

- 2.4 **Macroeconomic context.** One (medium) risk for active labor market policies is that their outcomes depend on the macroeconomic context. Components I and II

⁵⁵ <http://manuals/pdf/english/OP-1002-Doce.pdf> See OP-1002, document CP-2475.

⁵⁶ See [IDBdocs-#37035133](#).

could be affected by the economic context, as this may have a direct impact on firms' training and hiring decisions.⁵⁷

- 2.5 **Governability and development.** The political cycle (presidential elections are due in 2014) gives rise to a (medium) risk, as it could lead to reduced commitment by the Government of El Salvador. This will be mitigated by the continuous dissemination of the results and strategic partnerships with the productive sector. The (medium) risk arising from awarding seed capital will be mitigated by providing it in kind and through program monitoring.
- 2.6 **Sustainability.** This being the Bank's first operation with the Government of El Salvador on labor matters, it envisages from the outset mechanisms for early evaluation, including activities to facilitate its sustainability. The operation's sustainability will rest on the results it obtains and the installed capacity produced in the government.⁵⁸

III. EXECUTION AND MANAGEMENT PLAN

A. Summary of execution arrangements

- 3.1 **Borrower and executing agencies.** The borrower will be the Republic of El Salvador and the executing agencies will be the MTPS and CONAMYPE. All the subcomponents will be executed by the MTPS, with the exception of Subcomponents I.1 and II.2, which will be executed by CONAMYPE. For program execution, there will be a subprogram manager in the MTPS and one in CONAMYPE, to supervise and coordinate all activities executed by each executing agency, with one specialist in the financial unit and one in the procurement unit and an administrative assistant in each executing agency. The Program Operations Manual⁵⁹ lays out, among other points, how execution of the operation is to be organized, the procurement, financial and execution procedures, eligibility requirements for program participants, coordination mechanisms between the executing agencies, and their responsibilities as regards activity execution. **The special conditions, to the Bank's satisfaction, will be: (a) precedent to the first disbursement: (i) approval of the Program Operation Manual; and (ii) signature and entry into force of the agreement between the MTPS and CONAMYPE establishing their respective execution obligations;** (b) precedent to disbursement of resources allocated for MTPS-executed activities: (i) the personnel described in this paragraph is in place; (c) precedent to disbursement of resources allocated for CONAMYPE-executed activities: (i) the personnel

⁵⁷ The growth forecasts are 2% for 2012, 2.5% for 2013, 3% for 2014, 3.5% for 2015. Growth in the first quarter of 2012 was 1.6%, lower than forecast, which may affect the achievement of program targets. Source: International Monetary Fund (IMF) projections.

⁵⁸ Maintaining the activities as planned, including maintenance of the capacity installed and recurrent activities, represents an annual cost of US\$1.13 million for the MTPS and US\$1.5 million for CONAMYPE. These costs should be absorbed by the two institutions through savings and/or budget increases.

⁵⁹ See preliminary version at [IDBdocs-#37035822](#).

described in this paragraph is in place; (ii) a funds-transfer agreement has been signed between the Ministry of Finance and CONAMYPE. **Special disbursement.** Once conditions (a), (b), (c), and (e), of Article 4.01 of the General Conditions of the loan contract have been met, the borrower can request a special disbursement of up to US\$200,000 to hire the personnel mentioned in this paragraph and to purchase the equipment and furniture for said personnel.

- 3.2 **Financial management.** Each executing agency will manage and dispose of budgetary allocations for the execution of the subcomponents for which they are responsible. The accounting records, and the relevant supporting documentation, will be kept by the respective financial units, using the integrated financial management system (IFMS). Each executing agency will have a special account at the Central Reserve Bank, and a designated operational account at a commercial bank from which it will make payments to providers and contractors, using the IFMS's treasury subsystem for support. Both accounts will be operated solely for the corresponding program component. Each executing agency will channel disbursement requests to the Bank and submit the financial reports required to verify the execution agreements. As set out in the Financial Management Policy for IDB-financed Projects (document OP-273-2), disbursements will be made on the basis of the program's liquidity needs, and independently for each executing agency. For program financial monitoring the financial reports produced by the institutional application (IFMS) will be used, with the necessary breakdown given in the corresponding notes and complementary financial information. Each financial unit will be in charge of coordinating with the subprogram manager in each institution presentation to the Bank of the financial reports needed to ascertain the state of execution of the disbursed resources. See Annex III.

B. Procurement

- 3.3 The Bank will review procurements ex post once a year. The frequency of ex post reviews and the thresholds established for the ex ante review of contracts are consistent with the institutional capacity assessments carried out, and may be modified as part of the updates and revisions to the procurement plan, in accordance with each executing agency's performance and progress in adopting any necessary corrective measures. The procedures applicable to each type of procurement must follow the "Policies for the Procurement of Goods and Works Financed by the IDB" (document GN-2349-9) and "Policies for the Selection and Contracting of Consulting Services Financed by the IDB" (document GN-2350-9). The Bank will supervise the procurement of goods and works and contracting of consulting services with program resources in accordance with the provisions of the Procurement Plan and Appendix I of documents GN-2349-9 and GN-2350-9.

C. Auditing

- 3.4 The MTPS will be in charge of contracting audits for the program as a whole, in accordance with applicable Bank policies. The program's financial statements will

be audited by independent auditors and submitted with 120 days after each calendar year-end and the last such report 120 days after the end of the disbursement period.

D. Summary of results monitoring mechanisms

- 3.5 The main monitoring instruments will be the administrative databases of each executing agency, baseline and monitoring surveys, project reports, systems in operation, and studies conducted. The subprogram managers and the monitoring and evaluation specialists in each institution will be responsible for program monitoring. An economic analysis of Component II was conducted; the cost-benefit analysis of Subcomponent II.1 yielded an internal rate of return (IRR) of 102%. For Subcomponent II.2, the returns are more moderate (IRR of 12%), and the net present value (NPV) is positive if the targeted group still retains a comparative advantage over the control group five years after the intervention. A midterm evaluation will be conducted and the report presented to the Bank when 40% of program resources have been disbursed, and an outcome evaluation will be performed when 90% of the resources have been disbursed. See Monitoring and Evaluation Plan.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	The intervention contributes to the lending program: i) small and vulnerable countries, and ii) poverty reduction and equity enhancement.		
Regional Development Goals	The intervention contributes to increasing the share of formal employment in total employment.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	The intervention contributes to the following Bank outputs: i) Individuals (all, men, women, youth) benefited from programs to promote higher labor market productivity, and ii) Number of jobs added to formal sector.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2575	Increase in the coverage of job placement programs.	
Country Program Results Matrix	GN-2661-4	The intervention is included in the 2012 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	9.5		10
3. Evidence-based Assessment & Solution	7.8	25%	10
4. Ex ante Economic Analysis	10.0	25%	10
5. Monitoring and Evaluation	10.0	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood	Medium		
Environmental & social risk classification	C		
III. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: Budget, Treasury, and Accounting & Reporting. Procurement: Information system.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality	Yes	Component II aims at having at least 50% of female participants at the end of the program and it covers a lumpsum transfer for child care for female beneficiaries with children.	
Labor	Yes	The main objective is to improve the productive performance in El Salvador, through improvements in the coverage and quality of employment, labor and social welfare policies.	
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.	Yes	The evaluations will generate new evidence of these types of programs in the country. The evaluations of subcomponent I.1 and II.2 will generate new evidence for the region.	

The project aims to improve the productive performance of workers in El Salvador. The project contributes to the goal of poverty reduction and the target of increasing the share of formal employment in total employment. It also contributes to the regional development goal of individuals benefited from programs to promote higher labor market productivity. The project is aligned with the Country Strategy.

The project as a whole is highly evaluable. The diagnosis has adequate information about the difficulties that young people face to enter the labor market, high informality, and low labor productivity. The project has seven subcomponents and one of them (Subcomponent II.2) has a lower level of evaluability due to its relationship with the other components and the lack of evidence on the effectiveness of such programs. Despite this fact, there is an evaluation strategy that will allow assessing the effectiveness of this subcomponent. Outcomes and outputs are correctly defined and there are suitable indicators.

The monitoring and evaluation plan includes elements of monitoring and impact assessment to measure policy effectiveness. The economic cost-benefit analysis presents and discusses the validity of the assumptions. The benefits used in the analysis are part of the results matrix.

Finally, the risk matrix shows project risks classified by magnitude and probability, and these risks have mitigation measures and indicators to monitor its implementation.

RESULTS MATRIX
INDICATORS MATRIX

Project objective	The objective is to improve the productivity of workers in El Salvador through changes in the coverage and effectiveness of employment, labor, and social security policies.
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Impact indicators	Baseline	Target	Comments
Percentage increase in sales per employee in participating micro and small enterprises with respect to a valid comparison group.	0	10%	Source: Impact assessment of subcomponent I.1.
Percentage increase in income for participating workers with respect to a valid comparison group.	0	Subcomponent I.1: 5% Subcomponent II.1: 17% Subcomponent II.2: 27%	The impact indicator is the same as for the three programs described below, but the impact target varies depending on the specific characteristics of each program. In the case of subcomponent I.1, the intervention is aimed at the company level, and it is expected that this will have an impact on its workers at a later stage. A small impact is therefore expected compared with other programs targeting young people. In subcomponents II.1 and II.2 participating young people are addressed directly by the program, and the impact targets were estimated based on the EHPM 2010 data. Source: Impact assessments of subcomponents I.1, II.1 and II.2.
Increase of proportion in percentage points (p.p.) of formal workers (registered with the ISSS) compared to a valid comparison group.	0	Subcomponent I.1: 5 p.p. Subcomponent II.1: 17 p.p. Subcomponent II.2: 10 p.p.	Idem.

Percentage reduction in workplace accident rates (accidents reported to the ISSS/total ISSS contributors).	2.6%	1.6%	Baseline: Total accidents reported to ISSS in 2011 / average ISSS contributors in the 12 months of 2011 = 19,016 / 718,700 Source: ISSS.
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Outcome Indicators	Baseline	Target	Comments
Percentage of firms meeting at least 70% of their targets (in accordance with the action plan), after 12 months of the intervention.	0	70%	Source: CONAMYPE information system.
Percentage increase in sales per employee in participating micro and small enterprises after 12 months of the intervention.	0	10%	Source: CONAMYPE information system.
Percentage reduction in workplace accident rates (accidents reported to the ISSS/total ISSS contributors).	2.6%	1.6%	Baseline: Total accidents reported to ISSS in 2011 / average ISSS contributors in the 12 months of 2011 = 19,016 / 718,700 Source: ISSS.
Percentage of young participants with training grants holding formal jobs after the end of the end of the intervention.	0	After 3 months: 70% After 12 months: 50%	Source: MTPS information system.
Percentage of young people participating in entrepreneurship programs who receive seed capital and keep up their venture after the end of the intervention.	0	After 6 months: 50% After 12 months: 30%	Source: CONAMYPE information system.

Increase in preventive activities by the labor inspectorate, through a reduction in the percentage of inspections leading to sanction procedures (total sanctions/total inspections) (%).	11.56%	7%	Baseline year: 2011 Source: Dirección General de Inspección del Trabajo [Labor Inspectorate], MTPS.
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Component 1	Base	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
Outputs								
Number of firms receiving training for their workers.	0	200	290	290	290	290	1,360	Baseline: new program. Monitoring: CONAMYPE information system.
Number of firms trained on occupational risk prevention topics.	3,039	3,100	3,100	3,100	3,100	3,100	15,500	Baseline: MTPS information. Monitoring: MTPS information system based on reports from business associations.
Component 2	Base	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
Outputs								
Young people trained on training grants for vacancies in companies.	0	600	1,200	2,200	1,500	500	6,000	Baseline: new program. Monitoring: MTPS information system.
- Women	0	180	420	880	675	250	2,405	This indicator contributes to the Bank's Country Strategy and the Regional Development Goals 2012-2015: (i) individuals benefiting from the program to promote increased productivity in the labor market; and (ii) number of employees joining the formal sector.
- Men	0	420	780	1,320	825	250	3,595	
Job portal designed and running.	0		1					Monitoring: MTPS systems area reports.
Access to the toll-free line set up and running.	0		1					Monitoring: MTPS systems area reports.

Strategy for linkage with the private sector designed and implemented.	0		1					Monitoring: program monitoring reports.
Program communication and dissemination strategy and its results designed and implemented.	0		1					Monitoring: program monitoring reports.
Young people trained and/or supported economically for entrepreneurship and business ideas.	0	400	400	400	400	0	1,600	Baseline: new program. Monitoring: CONAMYPE information system. This indicator contributes to the Bank's Country Strategy and the Regional Development Goal 2012-2015 (individuals benefiting from the program to promote increased productivity in the labor market).
- Women	0	200	200	200	200		800	
- Males	0	200	200	200	200		800	
Component 3	Base	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments
Outputs								
Proposed regulatory reforms to assign more powers regarding the labor market, employment and social security formulated.	0			2				Source: MTPS Legal Unit.

Comprehensive inspection process reengineering implemented: Percentage of scheduled inspections targeted based on risk criteria (%).	0%	5%	10%	40%	60%	85%	85%	“Targeted based on risk criteria” is understood to mean all scheduled inspections have been planned and executed using <i>at least</i> the following parameters applied to the firms to inspect: (i) high risk of occupational accidents; (ii) employer not contributing to the ISSS and AFPs; and (iii) informal jobs. Baseline year: 2012 Source: Dirección General de Inspección del Trabajo [Labor Inspectorate].
Risk prevention process reengineering implemented: Percentage of risk-prevention plans submitted by employers and verified by the MTPS which include an occupational accident indicator (% of cumulative total).	0%	0%	10%	20%	30%	50%	50%	The “occupational accidents” indicator must: (i) incorporate the baseline and target for accidents; and (ii) guarantee its reliability. By law this indicator must form part of the prevention programs verified by the Dirección General de Previsión Social [Social Security Directorate]. Baseline year: 2012 Source: Dirección General de Previsión Social [Social Security Directorate].
Conciliation process reengineering implemented: Days elapsed between filing the individual conciliation request and the date of the first hearing.	13.0	12.0	10.0	7.0			7	Baseline year: January to May 2012 Source: Dirección General de Trabajo [Labor Directorate].

System of labor event management running. Number of modules installed and operating.	0		2	4			6	Module to install: 1. Inspection management module. 2. Safety committee and prevention plan management module. 3. Register of advisory and expert companies module. 4. Registration and monitoring of infrastructure verifications and authorizations. 5. Labor unions register module. 6. Conciliation process management IT module. Source: Executive Management
Administrative management system running: Number of modules installed and operating.	0			2		2	4	Module to install: 1. Human resources: staff, movements and payroll record. 2. Purchasing and warehousing. 3. Budgetary management, including assets and cost centers. 4. Logistics and vehicle registry. Source: Administrative Management – Procurement Unit (UACI)

Notes:

1. The Matrix of Indicators will show the base level values, expected year values, and target values of each indicator;
2. Outputs and outcomes are grouped together to facilitate monitoring of component performance
3. The right hand column can be used for description of output / outcomes and choice of indicator and other explanatory notes
4. In the Results annex/section, this Matrix will be complemented by a detailed account of the arrangements (including institutional responsibilities, operating regulations, terms of reference, hiring of consultants, budgeting) showing how the data will be collected, verified, analyzed and reported to the Bank. The data sources and rationale behind the base line and target values will also be described.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: El Salvador

Program number: ES-L1063

Name: Comprehensive Support for Effective Labor and Social Security Policies

Coexecuting agencies: Ministry of Labor and Social Welfare (MTPS) and Comisión Nacional de la Micro y Pequeña Empresa [National Micro and Small Enterprise Commission] (CONAMYPE)

Prepared by: Santiago Castillo and Mario Castaneda (FMP/CES)

I. SUMMARY

1. The MTPS and CONAMYPE, as executing agencies, will be responsible for program implementation through two work teams in each agency, headed up by a suprogram manager from each executing agency. Each executing agency will have technical, administrative and financial autonomy over how it manages the resources for its activities, and receive support from the relevant institutional financial administration and procurement units. In terms of financial management, both will be subject to the generally applicable standards for the public sector, supplemented by the Bank's financial management policy (document OP-273-2). Bank policies and procedures (documents GN-2349-9 and GN-2350-9) will be used for procurement.

II. EXECUTING AGENCIES' FIDUCIARY CONTEXT

1. Country financial management and procurement systems, and their internal and external control mechanisms, are well defined in El Salvador's legislation. By law, no sums may be pledged or paid without the corresponding budgetary credit being approved by the legislative assembly. The Organic Law on the Financial Administration of the State (AFI Law) establishes the rules for public sector financial management and puts in place an integrated financial management system (IFMS) comprising the budgetary, public credit, treasury and government accounts subsystems.
2. Under the AFI Law an institutional financial unit has been set up in each of the government entities. This unit is responsible for financial management and reports directly to the director of the institution concerned. The law assigns regulatory issues to the Ministry of Finance, with responsibility for financial operations in administrative processes decentralized to the executing units.

3. The financial units' fiduciary responsibilities are complemented by the respective internal audit units, and the institutional procurement units in each government department. The Public Procurement Law (LACAP) defines the rules in this field. As regards external control, the Ley de la Corte de la República [State Audit Office Law] establishes the Public Treasury as the institution responsible for auditing accounts.

III. FIDUCIARY RISK EVALUATION AND MITIGATING ACTIONS

1. Based on the available information, the fiduciary team established the total risk of the program associated with financial management and procurement to be medium. This conclusion was basically related to the institutional units concerned having limited operational capacity and a lack of familiarity with Bank policies. Thus, the risks identified may be summarized as follows:

Table 1: Risks identified and proposed mitigating actions

Risks/Weaknesses	Preventive/Corrective Action	Date for Compliance
Insufficient staff. This may lead to errors and inefficiencies in the selecting and procuring of goods and services, and in accountability processes.	It is recommended that the fiduciary areas (financial and procurement units) be bolstered with additional trained staff.	When the program launch workshop is held.
Limited knowledge of Bank policies. Program execution requires procurement and finance staff who are trained in the Bank's operating procedures.	Include ongoing staff training on goods and services administration and financial management in the AWP.	When the program is implemented.
Limitations of the filing system. The procurement unit does not have a unified filing system in which all procurement processes are duly identified and all the documentation for each of the stages of the procurement process is stored in a single dossier and location.	<ol style="list-style-type: none"> 1. Set up a unified filing system in which all procurement processes are duly identified and all the documentation for each of the stages of the procurement process are stored in a single dossier in the procurement unit. 2. Provide appropriate premises and furniture for storing the files and ensure the necessary security arrangements are made. 	When the program is implemented.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

1. It is recommended that the following requirements and agreements be included in the Special Conditions of the loan contract:
 - a. Submission of the Program Operations Manual to the Bank for approval. This manual is to define those procedures not established in existing laws or regulations, and the interagency coordination mechanisms, roles, and responsibilities of the entities participating in the program.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

1. **Procurement execution.** The fiduciary agreements and requirements for procurement establish the provisions applicable to execution of all the procurement envisaged in the program.
 - a. **Procurement of works, goods and nonconsulting services:**¹ Contracts subject to international competitive bidding (ICB) will be executed using the standard bidding documents (SBD) issued by the Bank. Bidding procedures subject to national competitive bidding (NCB) will use national competitive bidding documents satisfactory to the Bank.
 - b. **Procurement of information technology (IT) systems:** IDB standard documents will be used.
 - c. **Turnkey procurement (supply and installation):** Not applicable.
 - d. **Procurement with community participation:** Not applicable.
 - e. **Consultant selection and contracting:** The consulting service contracts will be included in the initial procurement plan and will be executed using the standard request for proposals (SRP) issued by the Bank.² This list may comprise entirely (100%) national firms³ in the case of contracts under the thresholds set for El Salvador by the Bank.
 - f. **Selection of individual consultants:** This will be based on their qualifications to perform the work, based on a comparison of at least three qualified candidates.
 - g. **Training:** Applicable.
 - h. **Recurrent expenditures:** These are those operating and maintenance expenses required to enable the program to be run during its lifetime. **Not applicable.**
 - i. **Commercial practices:** All the procurement processes have to be carried out in accordance with international commercial practices and procedures or practices contrary to the basic principles of competition, efficiency, and economy may not be imposed.
 - j. **Advance procurement/Retroactive financing:** No advance procurement and/or associated contracts are envisaged for this program.
 - k. **Domestic preference:** Not applicable.
 - l. **Other:** In the case of procurement of works it is necessary, prior to commencing any procurement process the executing agency have the land

¹ According to the IDB procurement policy, nonconsulting services are treated as goods.

² See “Policies for the Selection and Contracting of Consultants” (document [GN-2350-9](#)) paragraph 3.9. Direct selection must be duly justified.

³ Foreign firms will not be prevented from participating.

and/or rights of way and other rights, and environmental permits necessary for implementation of the program.

2. Main procurement items - Initial procurement plan

INITIAL PROCUREMENT PLAN

Description of envisaged procurement		Estimated amount (US\$)	Type of bidding procedure	Estimated date
WORKS				
GOODS	Acquiring licenses/permits	550,000	ICB	2 nd half 2013
	Equipment	120,000	NCB	1 st half 2014
SERVICES				
FIRMS	Design, development and implementation of the employment portal	208,000	FBS	1 st half 2013
	Risk prevention awareness campaign	250,000	FBS	1 st half 2013
INDIV				

3. Procurement supervision

- The Bank will review procurement ex post once a year. The frequency of ex post reviews and the thresholds for ex ante review of contracts are consistent with the institutional capacity assessment. These thresholds and the frequency of ex post reviews may be adjusted as part of the update and review of the Procurement Plan, based on the executing agencies' performance and progress on the adoption of the corrective measures described. The procedures applicable to each type of procurement are consistent with the "Policies for the Procurement of Goods and Works Financed by the IDB" (document GN-2349-9) and "Policies for the Selection and Contracting of Consulting Services Financed by the IDB" (document GN-2350-9). The Bank will supervise the procurement of goods and works and contracting of consulting services with program resources in accordance with the provisions of the Procurement Plan and Appendix I of documents GN-2349-9 and GN-2350-9, and as per the following table:

Procurement procedures

Investment category	Threshold (US\$)	Procurement procedure	Review type
Works	US\$5,000,000 or more	International competitive bidding	All ex ante
	Between 350,000 and 5,000,000	National competitive bidding	All ex ante
	Less than 350,000	Shopping	The first three contracts ex ante; subsequent contracts ex post
	No threshold	Direct contracting	All ex ante

Investment category	Threshold (US\$)	Procurement procedure	Review type
Goods and nonconsulting services	US\$250,000 or more	International competitive bidding	All ex ante
	Between 50,000 and 250,000	National competitive bidding	All ex ante
	Less than 50,000	Shopping	The first three contracts ex ante; subsequent contracts ex post
	No threshold	Direct contracting	All ex ante
Individual consulting services	No threshold	Individual consultant selection based on qualifications	The first three contracts ex ante; subsequent contracts ex post
	No threshold	Single-source selection	All ex ante
Consulting firms services	Greater than 200,000	Shortlist with broad geographical participation	All ex ante
	Less than 200,000	Shortlist may comprise national consultants	All ex ante
	No threshold	Single-source selection	All ex ante

- 4. Records and files.** A unified filing system needs to be set up in which all procurement processes are duly identified and all the documentation for each stage of the procurement process is stored in a single dossier in each procurement unit. Appropriate premises and furniture need to be provided for the files and the necessary security arrangements made. The head of the procurement unit in each executing agency will be responsible for maintaining and safeguarding the program files and records. The formats described in the Program Operations Manual referred to above must be used when preparing and filing the program reports.

VI. FINANCIAL MANAGEMENT

- 1. Programming and budget.** The country system will be used, such that each executing agency will manage an annual budgetary allocation clearly detailing the budget unit and work lines consistent with each component or subcomponent, to clearly identify the program and its source of financing, with sufficient budgetary credit to cover each year's execution commitments.
- 2. Accounts and financial reports.** The country system will be used in part. The program's accounting records, and the relevant supporting documentation, will be the responsibility of the respective financial units, using the integrated financial management system (IFMS).
- 3. Disbursements and cash flow.** The country's treasury subsystem will be used to process disbursements. The MTPS and CONAMYPE will each have a special account at the Central Reserve Bank, and a designated operational

account held with a commercial bank⁴ from which to make payments to suppliers and contractors, using the IFMS's treasury subsystem for support. These accounts will be used solely for the program. Pursuant to the Bank's new policy on financial management (document OP-273-2), disbursements will be made on the basis of liquidity needs. For this purpose, a financial plan will be prepared, which will be used as the basis for advances or other modes of disbursement deemed appropriate.

4. **Internal control.** The technical standards on internal control issued by the Corte de Cuentas de la República [State Audit Office] will be applied.⁵ An important prior control envisages the review by the finance unit's budget area of annual procurement programming with the resources assigned in the respective budget. In the second phase, the budget area will make the budgetary commitment by means of a IFMS record. Prior to payment under contractual obligations, there is a further check on the accounting registration of the accrual of the expenditure. The account entry for the payment of the obligation is made immediately after the check is delivered or the beneficiary's account is credited.
5. **Internal audits.** Each executing agency has an internal audit unit. However, their resources are limited. Insofar as they are able, it is expected that the internal audit units in each institution will include the review of program implementation in their annual plans.
6. **External control and reports.** The program's external control will be entrusted to a firm of independent auditors acceptable to the Bank. The auditors will be contracted by the MTPS on a competitive basis from among tier I firms, following the guidelines established in AF-200. Expanded terms of reference (ToR) will be applied and must be agreed in advance by the Bank. The ToR will specify submission of independent reports by each executing agency. The Bank will review this contracting process ex ante.
7. **Supervision.** For program financial monitoring the (unaudited) financial reports produced by the institutional application (IFMS) will be used, with the necessary breakdown given in the corresponding notes and complementary financial information. These reports will initially be required quarterly. This frequency may subsequently be modified. These quarterly reports may not be submitted later than 45 days after the close of each calendar quarter. The notes explaining the financial information will be designed to be consistent with the Bank's policy and financial tools. These reports should show the progress in executing the activities set out in the multiyear program execution plan.

⁴ These arrangements will be used unless the Government of El Salvador implements a single account for payments.

⁵ The legislation in El Salvador establishes the responsibility of public officials in the exercise of their duties such that in the event of noncompliance legal proceeding may be brought against them. Title III "Responsibility for public office," Articles 52-61 of the Ley de la Corte de Cuentas [State Audit Office Law].

8. During the first six months of implementation the financial information submitted will be reviewed on site and compared against the plans. The fiduciary risks will be reassessed, and it will be determined whether more onsite rather than desk reviews will be necessary.
9. **Execution mechanism.** The execution mechanism will be decentralized. Each executing agency will be responsible for preparing annual work plans and periodic progress reports and keeping them up to date. They will also be responsible for funds estimates for the preparation of disbursements schedules and updating the program management and monitoring tools (multiyear execution plan and procurement plan). Each will have autonomy over the technical, administrative and financial management of the resources corresponding to their respective activities.
10. **Program Operations Manual.** The issues presented in these fiduciary agreements and requirements will be set out in detail in a Program Operations Manual, which will require the approval of the signatory fiduciary specialists.