

**JAPAN SPECIAL FUND (JSF)
PROJECT PROFILE**

I. BASIC PROJECT DATA

Project name: Modernization of the Labor Training Systems and Implementation of a Competitive Fund for Labor Training

Project number: EC-T1096

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Executing Agency: Social Development Coordination Ministry through the Technical Secretariat of the Social Development Coordination Ministry (Secretaría Técnica del Ministerio de Coordinación de Desarrollo Social – STMCDs)

Amount & Source: IDB: (JSF) US\$640,500
Local Contribution: US\$160,800
Total: US\$801,300

Periods: Execution Period: 14 months
Disbursement Period: 20 months

Goals: The program's main goal is to contribute to a continuous process of quality improvement and suitability of the labor force and its training; and to implement a competitive fund for labor training, particularly for the most vulnerable social groups, such as youngsters, women, and segregated ethnic groups, in order to improve their potential of having access to and staying in the labor market. The specific objectives are: i) to improve the link and complementation between the labor training supply and the human resource training demand by the different productive sectors; (ii) to link the purpose of labor training to the goals of increasing productivity, improving employment quality, rising income, and providing the workers of vulnerable group labor market with employment; and (iii) to orient, update, and conduct labor training activities in order to achieve a more versatile and multi-faceted worker within a wider concept of labor competition in order to replace the traditional worker specialized in restricted or very specific functions.

Description: The project is comprised of two components:

Component 1: Reform of the legal and institutional framework of the Labor Training System and its service provision system.

This component has three sub-components: (i) Reform of the legal and institutional framework of the Labor Training System; (ii) Reform and modernization of the professional

training services; and (iii) Reform and Operation of the Training Quality Assurance System.

Component 2: Creation and Institutionalization of the Competitive Fund for Labor Training

This component has two sub-components: (i) Creation, regulation, and implementation of the Competitive Fund for Labor Training; and (iii) Reform and Operation of the Training Quality Assurance System.

II. BACKGROUND AND PROBLEM STATEMENT

A. Background

- 2.1 In Ecuador there are various obstacles that prevent the country to improve its productivity and competitiveness. Amongst them are the poor quality of public education, it's lack of orientation towards the needs of the labor market, the weaknesses of the labor training services and the reluctance of private and public enterprises to invest in human resources training. Such insufficiency is reflected in both the poor quality of labor training, which results in Ecuador having one of the lowest productivity rates in the continent; and in the inadequacy of such services and limited coverage as compared to other countries in Latin America.
- 2.2 The widespread practice of contracting temporary labor¹ lead to high labor turnover rate, threatening training possibilities. Youngsters, women, segregated ethnic groups are the social groups that are most affected by this exclusion. The country's meager human resource training negatively affects labor productivity and results in the Ecuadorian economy being poorly competitive in the world market.
- 2.3 The new external conditions compel to deeply transform the training model, its purposes, and contents. The model changes because training turns into a permanent lifetime re-conversion process; the purpose changes because it is closely linked to the efforts made to increase corporate productivity, to improve employment and wage quality, and to increase employment in an unstable and less protected labor market; and, finally, the content changes because training is aimed to versatile and multifaceted workers in a wide concept of labor competition, instead of a worker specialized in a limited range of functions².
- 2.4 With the globalization of the economy, and the dollarization adopted by Ecuador in 2000, there is an increasing need to improve the competitiveness of the country to face the international market in order to respond to the higher and more diverse demands from private and public sector. Therefore a better and much more complete labor training system has become a high priority for the country. However, the corporate sector's demands for more and better labor training, especially in the young population, have not been adequately covered until now, not by the formal education

1 Known in Ecuador as the "outsourcing system."

2 Tockman: 98.

of the technical schools, institutions, and universities, nor by the traditional training system provided by the Ecuadorian Service of Professional Training (SECAP) or by the National Council for Professional Training (CNCF) or the private training centers.

- 2.5 Formal education and labor training are critical to alleviate poverty, as they are instrumental in preparing adequately and providing opportunities to individuals to integrate the labor market and to provide them with a regular income. In order to improve its results in poverty alleviation and in competitiveness, the new Government of Ecuador has decided to improve the quality and efficiency of the labor training services. In particular, for the vulnerable urban and rural populations that have not or limited access to these services.

B. The Institutional and Regulatory Framework of the Labor Training System

- 2.6 The institutional framework of the labor training system is currently a complex one with a diversity of participants acting in a poorly coordinated way. This framework is composed of the , CNCF, the Ministry of Education (MoE), the SECAP, the National Board for the Defense of Artisans, the Commission of Labor Training Quality Management and complemented by some direct actions carried out by the Ministry of Labor and Employment (MTE) since 2004. In addition, there are also private centers of labor training that offer poor quality services. The country has not yet established the mechanisms that allow to evaluate and monitor the quality, efficiency and relevancy of the labor training services
- 2.7 At the moment, there is a complex mix of laws, normatives, supreme ordinances, executive ordinances, ministerial agreements and regulations that have been added progressively without a clear vision of how the sector should be managed and oriented. This profusion of legal norms has developed a highly inefficient sector and promoted institutional fragmentation, allowing the emergence of corporate interests, distant to the common interest of the country and securing the status quo. It is, thus, necessary to overcome such resistance to change by means of a process of information, dialogue, and agreement in order to provide the country with a modern labor training system that stimulates work productivity.³

C. Professional Training Services

- 2.8 Traditionally, labor-training services have been under the responsibility of a wide range of public and private institutions. At the public level, however, the role of SECAP can be highlighted, offering long- and mid-term courses, in a reduced number of specializations. Additionally, training services have been provided by the MoE's Permanent Popular Education Bureau, the universities, and schools sponsored by the MoE, as well as those indirectly provided by the Ministry of Social Welfare, the MTE, the Ministry of Industries, and the Ministry of Agriculture. In the private sector, there are higher education institutes, technical schools, foundations, NGO's, production chambers, and the National Board for the Defense of Artisans. Such diversity of labor

3 J.Ramírez:05

training service suppliers disperses resources and atomizes actions, which impedes having a high-quality supply⁴.

- 2.9 Since the Law for Investment Promotion and Citizens Participation No. 1445 was enacted, shifting private sector's contributions to CNCF, it was unclear what groups would be serviced by SECAP. SECAP's financial resource restriction has been reduced in accordance with the provisions of Executive Decree N° 221 dated April 2007, whereby 30% of the resources from 0.5% of CNCF's corporate contribution is transferred to this institution. Nonetheless, this budget increase was not accompanied by a restructuring process to guarantee optimal results and training services to sectors traditionally excluded from these. Urgent corrections to SECAP's operation are, thus, essential.
- 2.10 SECAP relies on significant physical and technological infrastructure, and experienced human resources. The support provided by the Japanese Cooperation to this institution has been relevant, both through equipment and technical assistance. However, the physical infrastructure, such as buildings and equipment seem to be underutilized.
- 2.11 CNCF was created through Decree No 1821 in September 2001 as the body in charge of regulating, coordinating, promoting, and facilitating the professional training activities in the country, and of preparing the policies, standards, and procedures to sponsor and strengthen training activities. However, the CNCF has complied with its purpose only partially.
- 2.12 The quality approach with which the CNCF has been operating is now inadequate because of its supply approach. The certifications granted to the training centers is merely a requirement for the initial qualification of such centers, and only covers the external conditions of the establishments, i.e., the equipment, physical infrastructure, human resources, and the curricula. It, thus, fails to include the training itself and the results and impacts of that training.⁵
- 2.13 The impact of the labor training provided by this entity through its accredited training centers (mainly NGO's) is not evaluated, a step which is critical to identify the incidence and efficacy levels in beneficiaries (workers and businessmen). No proof has been sought to verify if a significant impact has been achieved on the suitability and relevance of the training activities supply and its links to the labor training demand. The offered courses are mostly unsuitable. The contents of the majority of courses are too general. There are no specialized courses intended to solve specific problems inside the companies; and technical-productive courses are almost inexistent⁶.
- 2.14 The Training Centers and NGO's credited by CNCF are mainly oriented to relatively simple and profitable thematic areas. Therefore, the main goal of increasing the level, quality, and suitability of the labor training supply in order to improve work

4 M.J. Lemaitre:05

5 Gama: Feb-2006

6 Gama, August-2005

productivity and make the country's productive sectors more competitive and efficient, is not achieved.

- 2.15 In summary, the labor training system is compound of a great variety of public and private institutions that present low average levels of quality and that offers services that do not reflect the needs of the labor market. In addition, for economical reasons or geographical constraints, these institutions have not been proactive in offering their services to an important part of the population. To address this situation, in October 2005, the Government issued the Ordinance No. 730 creating the Commission of Labor Training Quality Management. This Commission, which is chaired by the MTE aim at improving the quality of the labor training services. The same Ordinance also established the creation and operation of a Competitive Fund for Labor Training.
- 2.16 So far, the Commission and the Fund for Labor Training have shown limited results, mainly because of lack of political will to promote the necessary reforms and also because both institutions have lacked the technical expertise required to exercise their duties. Amongst the areas that need to be strengthened are the creation of a system to certificate the quality of the labor training institutions (accreditation) and the definition of the mechanisms through which the Competitive Fund for Labor Training will be managed. As indicated, since January 2007, there is now a clear and strong political will to support the economic inclusion of the most vulnerable and excluded sectors through the improvement of the labor training sector.

D. Other initiatives complementary to this program

- 2.17 Within the framework of the Program of Social Reform (Programa Sectorial de Reforma Social) (1466/OC-EC) financed by the Bank in 2003, several policy objectives were already identified for improving the efficiency of Labor training. The main objective of this program was to make more efficient the allocation of public resources in various social sectors and to improve the relevancy of such allocation to populations with higher indexes of poverty and vulnerability. In order to support these initiatives, the Bank financed a Technical Cooperation (CT) to Support Education and Labor Training Reforms (ATN/SF-8487-EC). Most objectives of this program have been achieved, but in the labor-training sector more need to be done.
- 2.18 Although the Program was successful in setting the legal basis for establishing a quality certification system for labor training and for the implementation of labor training competitive fund, the lack of consent among the labor training institutions and of a political leadership by the MTE, were decisive factors for the little development in the execution of these instruments.

E. Justification

- 2.19 Unlike the events explained above, the new administrative that took office in January 2007 has shown its clear political will to articulate labor training to a strategy of inclusion of the most vulnerable population. This opens the possibility to articulate and coordinate the interests of different stakeholders.
- 2.20 Recently, in March 2007, the National Government approved the Economic Inclusion Plan that establishes the fight against poverty, the reduction of the income inequality

gap and the access to opportunities, as the main priority of the Government. This comprehensive plan includes: economic articulation, technological innovation, labor training, access to financing, supply and productive chains, and the sustainable access to natural resources. The Economic Inclusion Plan intends to create over 300.000 new jobs through various programs: Agro-Industrial Inclusive Businesses (coffee, cocoa, milk products, corn, herbs and others with market potential), Tourism, Housing and improvement in Public Purchases. These programs are focused on the poorest population in order to assist them in reducing their situation of vulnerability. In this context, labor training is a central component to develop these programs.

- 2.21 It has become critical to reactivate and bring to life the Competitive Fund for Labor Training dedicated to cover the demand of the vulnerable social groups that cannot finance this type of services. On the other hand, there is the urgent need to put the labor training policies in order and make them consistent by reactivating and operating the Labor Training Quality Management Committee, where the different stakeholders can be articulated in a comprehensive service system, consistent with the productive sector needs.
- 2.22 This proposal aims at updating the legal and institutional framework, modernizing the labor training services, and piloting a Competitive Training Fund to cover the needs of the most vulnerable groups. The Ecuadorian Government intend to apply the lessons learned from this pilot in order to implement larger scale programs, with an eventual support from the Bank.

F. Relation with the Bank's strategy

The Bank's Strategy for Ecuador (GN-2338-1) is concentrated in two priority areas: (i) to contribute to set the bases to make the productive structure more dynamic (structural dimension); and (ii) to promote the protection of the most vulnerable groups and social development (social dimension). This operation is consistent with both priority areas since it contributes to set the bases to make the productive structure more dynamic by training the country's vulnerable groups in order to improve their employability skills.

III. PROGRAM DESCRIPTION

A. Goals

- 3.1 The program's main goal is to contribute to a continuous quality and suitability improvement process in the labor training force, and to implement a Competitive Fund for Labor Training, targeted to the most vulnerable social groups, such as youngsters, women, and segregated ethnic groups, in order to improve their access and permanence into the labor market.
- 3.2 The specific objectives are: i) to improve links between labor training supply and labor training demand coming from different sectors of the economy; (ii) to link labor training to higher productivity, employment and income of the most vulnerable groups; and (iii) to improve flexibility of the labor force through training.

B. Components

3.3 The program contains two components:

1. Component 1: Reform of the legal and institutional framework of the Labor Training System and its service delivery system

3.4 The goal of this component is to reform the legal and institutional framework of the labor training system in order to give coherence to the related policies, articulating the different training services providers, according to the requirements and needs of the productive sector and to contribute to a continuous process of labor training quality and suitability.

3.5 This component has three subcomponents: (i) Reform of the labor training system's legal and institutional framework; (ii) Reform and modernization of service delivery; and (iii) Reform and Operation of the Training Quality Assurance System.

Sub-component 1.1 Reform of the labor training system's legal and institutional framework

3.6 The goal of this sub-component is to analyze the legal framework that rules the country's labor training services in order to propose a new Labor and Professional Training Law to develop an adequate National Training System, to optimize resources, and to overcome the current political and institutional fragmentation in accordance with the new labor training needs.

3.7 This component will be executed through consultancy services provided by two consultants:

- a. A consultant specialized in labor training who will be in charge of the following activities: (i) collect and systematize the information related to the specific problem of labor training policies; (ii) design a Comprehensive System for labor training; (iii) design strategies to have a more efficient use of resources related to equipment, financial and human resources; (iv) consult with the different stakeholders (corporate organizations, specialized NGO's, and worker associations); (v) organize short workshops to analyze the current training system and validate the proposal to create a General Labor Training System.
- b. A consultant specialized in developing legal rules to create a new Labor and Professional Training by complying with the following activities: (i) review and analysis of the existing legal framework related to labor training; (ii) investigation and collection of the existing information on the reform to the labor training system at the public and private levels, and the international experience; (iii) developing a draft Training Labor Law with special attention to the following aspects: (a) institutional goals; (b) organizational structure; (c) labor competence certification policy; (d) quality assurance policy for training; (e) training system's main participants; (f) financing; (g) physical and technological equipment; (h) international cooperation; (i) system's monitoring and evaluation; (j) Impact evaluation; and (k) fault and sanction codifying; (iv) stakeholder analysis by

defining their interests in order to establish a political and operative strategy to approve the new legal framework.

Sub-component 1.2 Restructuring and modernizing the professional training services

- 3.8. The goal of this sub-component is to design a strategy to strengthen CNCF and SECAP in order to improve their operative, technical and administrative capacity, allowing them to carry out its functions more efficiently.
- 3.9. In the case of CNCF, more competition will be promoted in the provision of labor training services to improve quality standards and to adjust the training's suitability to the market demand, by expanding the coverage. Two consultants will carry out⁷ the following activities: (i) redefine CNCF role clearly separating the technical and administrative areas from the financial area, to eliminate any possible conflict of interest; (ii) review CNCF's operative regulation to propose, if pertinent, eliminating the participation restriction to only non-profit entities; (iii) analyze the implementation of a fixed-value voucher mechanism calculated upon a market study by differentiating technical-productive courses from management courses⁸; (iv) analyze and propose the implementation of a double census and aleatory supervision system⁹; (v) analyze, propose, and promote the necessary improvements to the crediting system for new professional training centers, considering the possibility of eliminating ISO-type certification requirements as it restricts competition; (vi) propose effective mechanisms for follow-up, supervision, and impact evaluation activities; (vii) design and propose a labor competence certification system for workers; (viii) design an agreement with the INEC to incorporate a specific labor training module in the Home, Employment, Unemployment, and Underemployment Surveys; (ix) propose mechanisms to expand the system's coverage to the provinces where it has not been working; (x) propose improvements to the internal processes to increase coordination and consultation with the stakeholders; (xi) evaluate the efficiency and impact of the actions developed by the private training centers that work with CNCF resources; (xii) differentiate the training entities' crediting activities from their management supervision activities as executors.
- 3.10. In the case of the SECAP, and in close relation with the Economic Inclusion Plan, it will target its activities on the most vulnerable social groups. Two consultants specialized in labor training will be contracted to perform the following activities: (i) develop an institutional strategic plan; (ii) design a draft Executive Decree to: a) redefine the institutional goals and mission in accordance with the general labor training policies; b) outline the target social groups to be covered by the entity after the substantial reduction of resources; c) gradually reduce the resources currently pre-assigned by both the IESS and the CNCF, and to anticipate their replacement with resource assignment based on duly approved working plans, programs, and specific projects based on impact evaluations; d) make a proposal for the entity's organization and administrative restructuring; e) design an operational and financial decentralization plan; (iii) establish the cost and price of the services provided by SECAP to make the associated subsidies more transparent; (iv) define the operation and budget

7 Many of these activities were created from the reports of former studies financed by the Bank.
8 Gama, 2006
9 Gama, 2006

programming per project, with cost-benefit and cost-effective indicators that allows monitoring and evaluation; (v) incorporate an autonomous internal control area.

Sub-component 1.3 Reform and Operation of the Training Quality Assurance System

- 3.11. The goal of this sub-component is to implement the System of Quality Certification for Labor Training in order to standardize and improve the quality expected from both public and private labor training providers
- 3.12. This subcomponent will finance one consultant that will implement the following activities: (i) review, update, and support the enforcement of the Regulation issued by the Quality Assurance Committee for Professional Training; (ii) organize and update the registration of private and public labor training centers according to their current installed capacity (installations, equipment, human resources); (iii) define and establish the quality policies of the professional training considering the supply's suitability, the operation conditions for an adequate training, and its impact; (iv) define the basic indicators to evaluate training institutions; (v) determine the criteria, indicators, and standards that the training services institutions and the system's participating programs must meet; (vi) define the mechanisms for quality adjustment based on impact evaluations, to promote continuous improvement in the institutions and programs and its compliance and dissemination mechanism; (vii) design a technical assistance and training strategy for the system's users; and (viii) design a quality promotion plan for the training services and the system's benefits.

2. Component 2: Design, Piloting and Final Implementation of the Competitive Fund for Labor training

- 3.13. The objective of this component is to implement a modern and efficient Labor Training Fund, which will assist the segment of population that are excluded from those services. This second component has two subcomponents: (i) Design and implementation of the Competitive Fund for Labor Training; and (iii) Pilot of the Competitive Fund for Labor Training.

Sub-component 2.1: Design and implementation of the Competitive Fund for Labor Training

- 3.14. The goal of this sub-component is to draft the regulations under, which this fund will operate, and to give support to its efficient implementation. The Fund will target the most vulnerable groups, in accordance with the priorities established in the National Government's Economic Inclusion Plan.
- 3.15. Two consultants will be contracted to perform the following activities: (i) design the fund's operation manual by clearly establishing the goal, amount, eligible population, eligible training activities, standards for the offering institutions, competition, evaluation, and selection rules for the training proposals, inter alia; (ii) to define the professionals and technicians who are essential for the Fund's operation; (iii) promote the operative implementation of the Fund; (iv) develop an operative plan for the evaluation and self-evaluation processes of the training service offering institutions that will have access to the Fund's resources; (v) establish and propose the procedures to qualify the training service suppliers and the registration cost; (viii) establish

disbursement procedures to labor training providers; (ix) design a monitoring and impact evaluation system; (x) define a management information system; (xi) design a pilot operation plan for the Fund in a pre-determine zone or region; (xii) develop a promotion and dissemination program for the Fund's contents and benefits; (xiii) prepare a training program for the most vulnerable social groups, giving special priority to: (a) young people who abandoned the education system since they are considered a population segment in risk; (b) Indians and Afro-Ecuadorians because they are historically the most affected groups by social exclusion and poverty; (c) non qualified and unemployed adults who have been left out of their work by competition or adjustment in the productive processes; (d) the underemployed individuals, informal workers and independent workers. analyze sustainable financing sources

Sub-component 2.2 Operation and Piloting of the Competitive Fund for Labor Training

- 3.16. The goal of this sub-component is to implement and evaluate this pilot in order to replicate the experience in a larger scale. The fund will initially train 21.600 people, developing the employability skills of the most vulnerable populations, in accordance with the Plan of Economic Inclusion.
- 3.17. In this pilot phase, the Fund will finance around 720 labor training courses for vulnerable social groups, by applying the rules designed in accordance with item 3.15. Around 21,600 persons will be trained: 50% in urban marginal areas and the remaining 50% in rural zones. Each course shall have an estimated duration of 30 hours average, and a cost of US\$ 1 per hour per trained person. An average cost of US\$ 900 is estimated for each course. The intervention planning will be according to the priority areas established by the MCDS in its Social Action Agenda. These courses will be articulated with the Economic Inclusion Plan to generate economic opportunities for the poor population, and by supporting job generation linked to such Plan's programs (see 2.20). Once this test phase is in progress, it will be evaluated in order to expand the experience to a larger scale. Resources will be allocated in order to disseminate the results of this piloting experience.
- 3.18. This initial phase (USD 670,000) will be financed with both Bank's and counterpart resources, as detailed in the budget table. In a first phase, the Fund will be administered by the MCDS, and its definitive executor will be determined later during the execution of this operation.

IV. EXECUTION COST AND SCHEDULE

A. Cost and Financing

- 4.1 The project's total cost is US\$ 801,300 of which US\$640,500 will be financed by the Japan Special Fund (JSF), and US\$ 160,800 corresponds to the local contribution. The summarized costs are shown in the table below.

Component		JSF financing	Local counter part	Total
1	Component I. Reform of the institutional, legal, and service provision framework of the Labor Training System	71,500	0	71,500
2	Component II. Creation and Institutionalization of the Competitive Fund for Labor Training	554,000	137,000	691,000
3	other costs	15,000	23,800	38,800
Grand Total		640,500	160,800	801,300
		80%	20%	100%

B. Execution period and disbursement schedule

- 4.2 The Program's execution and disbursement periods will be 14 and 20 months, respectively, as of the Technical Cooperation Agreement's effective date. The period is compatible with the Project's dimension, the type of activities planned, and the Executor's institutional capacity. The project will be implemented according to the following execution schedule:

COMPONENTS	MONTHS													
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Component I: Reform of the institutional, legal, and service provision framework of the Labor Training System	X	X	X	X	X	X	X							
Sub-component 1.1: Restructuring the legal and institutional framework of the Labor Training System		X	X	X										
Institutional framework		X	X	X										
Legal framework		X	X	X										
Sub-component 1.2.: Restructuring and modernizing the professional training services					X	X	X							
CNCF					X	X	X							
SECAP						X	X							
Sub-component 1.3.: Reform and Operation of the Training Quality Assurance System.						X	X							
Component II: Creation & Institutionalization of the Competitive Fund for Labor Training.					X	X	X	X	X	X	X	X	X	X
Sub-component 2.1: Creation, regulation & implementation of the Competitive Fund for Labor Training.					X	X	X							

Sub-component 2.2: Operation of the Competitive Fund for Labor Training, starting with the training of 21,600 vulnerable persons.																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																										
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V. PROGRAM EXECUTION

A. Executing Agency

- 5.1 The project will be carried out by the Social Development Coordination Ministry through the Technical Secretariat of the Social Development Coordination Ministry (Secretaría Técnica del Ministerio de Coordinación de Desarrollo Social – STMCDs). The Ministry of Coordination of Social Development (MCDS) assembles the ministries of Education, Health, Social Welfare, Labor and Employment, Housing, Economy and Finance. The STMCDs depends on the mentioned MCDS. This Secretariat, formerly the Technical Secretariat of the Social Front (STFS), has a vast experience in implementing technical cooperation projects financed by the Bank, and has shown excellent administrative, operative, and financial capacities. In the last years, the MCDS has successfully implemented the following projects: Integrated Social Indicator System- SIISE (ATN/SF-5102-EC); Social Indicator System for the Afro-Ecuadorian Population - SISPAE (ATN/SF-8095-EC & ATN/NI-9100-EC); Evaluation of the Human Development Bonus - (ATN/SF-8484-EC); Implementation of the Children's Development Fund - (ATN/SF-8485-EC); Education and Labor Training Reforms - (ATN/SF-8487-EC). The MCDS, with the support of the Ministry of Economy and Finance will have the necessary resources to implement the coordination actions with the MTE and the SECAP. The STMCDs has suitable physical, technological and human resources to carry out the activities set forth in this project, mostly with funds from the State budget.
- 5.2 The Executor will be responsible to the Bank for: (i) keeping accountable and financial records of the Program according to the Bank's requirement; (ii) submitting disbursement applications and expense support documents; (iii) preparing and submitting financial reports of the project and other financial reports as required by the Bank; (iv) keeping exclusive and separate bank accounts for the administration of resources from the contribution of IDB and of the local partner; and (v) to keep an appropriate file of the justification documentation of the expenses made with the program's resources.

VI. SUSTAINABILITY

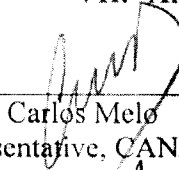
- 6.1 The labor training sector is characterized by a weak coordination among its several stake holders. In order to prevent this risk Coordination Committee led by the MCDS will be established, to support the STMCDs in the implementation process and to assure continuity and sustainability. The Committee will be composed by: (i) the Ministry of Labor or his/her permanent delegate; (ii) the Ministry of Education or his/her permanent delegate; (iii) the Ministry of Social Development Coordination or his/her permanent delegate; (iv) the Technical Secretary of the Ministry of and/or his/her permanent delegate; (v) the Director of the CNCF or his/her permanent

delegate; (vi) the Director of the SECAP or his/her permanent delegate; (vii) one representative of the employers; and (viii) one representative of the workers.

- 6.2 Another risk is related with the financial sustainability of the Labor Training Competitive Fund. As mentioned in 3.18, this initial phase will be financed with resources from this operation. However, it is expected that in 2008 the Fund will be funded with a specific allocation in the general budget, and also with resources allocated by SECAP and CNCF. The Fund will be initially administered by the MCDS, and its definitive executor will be determined later during the execution of this operation, with the results of the evaluation of this piloting phase. These two issues will give sustainability to this initiative.

VII. APPROVAL

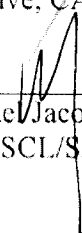
Concur:



Carlos Melo
Representative, CAN/CEC

Date

Concur:




Michael Jacobs
Chief, SCL/SPH

21 Nov '07.

Date

Approved:



Kei Kawabata
Manager, SCL/SCL

28 Nov '07

Date



Alicia Ritchie
Manager, CAN/CAN

21 Nov '07

Date