

PROJECT MEMORANDUM

COUNTRY: ECUADOR

EXECUTIVE SUMMARY

PROJECT NAME: Manpower adjustment program

PROJECT NUMBER: TC-94-09-38-6

EXECUTING AGENCY: Fundación Ecuador

AMOUNT: Total: US\$4,812,000
 Nonreimbursable IDB (MIF): US\$3,949,000
 State-owned enterprises: US\$ 763,000
 Participating workers: US\$ 100,000

MIF FACILITY: Human Resources (Facility II)

OBJECTIVES: The general objectives of this project are to develop and set up vocational counseling, technical training and assistance services for workers displaced from jobs in State-owned enterprises as a result of privatization and government modernization and to help ease the social costs of structural reforms. The specific program objective is to test a pilot system for job retraining and outplacement services for 4,000 displaced workers in four State-owned enterprises, using private, decentralized, participatory mechanisms, along with incentives designed to enhance the efficiency of the job retraining process.

DESCRIPTION: Accordingly, it is proposed that this program be conducted in the form of a pilot project over the course of a period of 18 months, putting together elements of different systems used in other countries (Canada, Colombia, Chile and Peru), to develop a model suited to prevailing conditions in Ecuador. The State-owned enterprises that are currently in the midst of a restructuring process and will participate in the program are the Empresa Nacional de Ferrocarriles [National Railroad Company] (ENFE), the Autoridad Portuaria de Guayaquil [Guayaquil Port Authority] (APG), the Empresa Nacional de Correos [National Postal Service] (ENC), and the Empresa Municipal de Agua Potable-Quito [Quito Municipal Water Company] (EMAP-Q).

Fundación Ecuador, a prestigious private organization, will serve as the program's executing agency and will be directly in charge of program management, using specialized contractors to furnish job retraining and outplacement services for participating workers and to conduct monitoring activities throughout the course of the program execution period.

Program participants will be selected by the manpower adjustment committees (MACs) set up in each of the four State-owned enterprises, with technical support from the executing agency. Required services will be jointly identified by corresponding MACs, the executing agency, service providers and private firms. Services such as the preparation of participant profiles, vocational counseling technical training, placement in internships, assistance for the establishment of microenterprises, placement in paid jobs and follow-up will be furnished by outplacement agencies (OAs) such as nongovernmental organizations, associations, foundations and consulting firms selected through competitive bidding procedures and paid, in part, according to their performance. The outplacement agencies will confer and collaborate with private firms in a position to offer internships and gainful employment opportunities to participating workers.

The experience gleaned from the pilot project will be shared with government agencies responsible for supporting ongoing job retraining services on a nationwide scale by involving the Ministry of Labor and Human Resources and other official agencies in the program under an arrangement with the executing agency. A proposal will be framed at the conclusion of the program execution period with recommendations for the institutionalization and organization of job retraining services on a larger scale based on a model similar to that of the pilot project.

**MONITORING AND
FOLLOW-UP:**

A thorough follow-up system will be set up during the course of the project execution period to be operated by an independent agency, which will produce quarterly reports and two interim performance evaluations six and twelve months into the project execution process. The study process for the framing of a proposal for expanding the pilot project model at the countrywide level will be set in motion as of the twelfth month of the project execution period. Effective, tried and tested mechanisms are expected to be in place for expanding the pilot project with well-established approaches and experienced personnel

and institutions by the end of the eighteenth month of the project execution period.

**ENVIRONMENTAL
CLASSIFICATION:**

An environmental protection plan for execution of the sector loan for the restructuring of transportation services, including the restructuring of the National Railroad Company (ENFE), the Guayaquil Port Authority (APG) and the Ministry of Labor and Human Resources, was approved by the Environment Committee on October 25, 1994.

DISBURSEMENTS:

The disbursement of program funds is contingent upon the executing agency: (i) entering into contracts with the coordinator, the two technical advisors and the manager for 18 months of full-time services; (ii) reaching an agreement with the Bank on a plan of operations for program execution with a schedule of activities and expected results; and (iii) drawing up a short list of specialized agencies to design and implement the program monitoring plan using Bank-approved indicators.

FEASIBILITY:

There are good assurances of the program's feasibility. The enabling legislation for launching the government modernization process has already been passed, and policy-makers have demonstrated their resolve to see it through by proceeding to set in motion the process of rescaling the central government and a number of State-owned enterprises. MACs have already been set up in three of the four participating State-owned enterprises and their members have been given training. These experiences confirmed the interest and enthusiasm of the employees at the prospect of taking part in a participatory job retraining program. There are adequate numbers of organizations interested in and capable of furnishing retraining services in the areas of residence of prospective displaced workers. The MACs already in place have approached private firms and have confirmed that there is interest in supporting the proposed outplacement mechanisms for displaced workers. The MACs have also secured the support of respective unions.

RISKS:

There is some uncertainty in regard to the successful outcome of efforts to find jobs for displaced workers in the private sector due to a possible unwillingness on the part of prospective employers to hire any new personnel in general and former civil servants in particular. As the executing agency, Fundación Ecuador, a prestigious organization whose membership includes some of the country's largest employers, will conduct a vigorous promotion campaign to secure

the cooperation of private firms for the fulfillment of program objectives.

The expandability and sustainability of this pilot project on a nationwide scale still needs to be proven. If the pilot project performs as expected and produces a satisfactory cost-benefit ratio, sources of financing on a scale large enough to furnish job retraining services to approximately 15,000 workers expected to be displaced over the course of the next three years will have to be identified.

PROJECT TEAM:

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I. COUNTRY ELIGIBILITY

- 1.1 On September 7, 1994, the Donors Committee declared the Republic of Ecuador eligible for all modalities of financing provided for under the Multilateral Investment Fund (MIF).

II. PROGRAM CONTEXT

- 2.1 The current administration, which has been in office since August of 1992, has been introducing a structural reform package designed to boost investment levels and yields to foster steady economic growth and reverse the harmful social effects of the low income levels and high unemployment rates characteristic of the past. As part of this package, the government is in the process of conducting a comprehensive program aimed at revitalizing private investment, prioritizing public investment in the social sectors, promoting long-term savings, facilitating the private financing of investment projects, and redefining the role of the State, downsizing it and strengthening its capability to furnish basic public services.
- 2.2 The State modernization and privatization plan involves downsizing government and privatizing transportation, water supply and sewerage, energy, telecommunications and other services. The process of rescaling the State and reducing the number of public employees will unfold at a pace determined by a number of different factors such as progress in technical areas and in the reorganization and restructuring of the public sector itself, the availability of funds to make legally established buyout payments, the capacity of the private sector to absorb displaced workers, and the existence of effective manpower adjustment mechanisms.
- 2.3 The legal and institutional framework for the State restructuring and modernization program is furnished by the Act on State Modernization, Privatization and Public Services Delivery by the Private Sector passed in December of 1993, creating the Consejo Nacional de Modernización del Estado [National Council for the Modernization of the State] (CONAM) with full powers to coordinate and oversee the implementation of strategies, policies and procedures for making the State modern and efficient.
 - A. Displacement of public-sector workers and absorption capacity of the private sector
- 2.4 Ongoing efforts to rescale the central government are bolstered by technical assistance furnished by the World Bank under a structural adjustment program (SAL) approved in December of 1994, which includes the energy and telecommunications sectors. In the transportation sector, with Bank assistance and in the context of

the sector program for the restructuring of transportation services (842/OC-EC), the government performed an assessment of the labor market on the basis of which has devised an action plan to ease constraints impeding its smooth operation.

- 2.5 This **action plan** has two main components, namely: (i) to strengthen the technical, institutional, functional and operating capacity of the Ministry of Labor and Human Resources (MTRH) to get involved in labor-management relations, the enforcement of labor regulations, collective bargaining, the monitoring of occupational health conditions and industrial standards, and in research and information services; and (ii) to frame bills amending regulations governing the labor market and furnish advisory services with a view to securing their passage by Congress.
- 2.6 The expectation is that the **capacity of the private sector to absorb displaced workers** will be strengthened by the reallocation of productive resources generated by the privatization process (sales of assets, stock, franchises, leasing of facilities and equipment, etc.) and the expansion of private investment, spurred by opportunities to invest in profitable projects previously open only to public capital. The elimination of legal constraints and the increasing flexibility and transparency of the labor market, bolstered by amended legislation and by the modernization of the Ministry of Labor and Human Resources, should also help promote the creation of new job opportunities in the private sector. Lastly, gains in labor productivity and a labor supply better prepared to meet demand as a result of the training dispensed by proposed job retraining services should help improve the job prospects of displaced workers.
- 2.7 The government has taken steps to ensure the availability of the funds needed to finance buyout payments to workers voluntarily furloughed from civil service jobs as established by law and by the provisions of collective bargaining agreements, and has begun making reductions in force at the central government level and in the Guayaquil Port Authority (APG), the National Railroad Company (ENFE), and the National Postal Service (ENC). Manpower adjustment committees (MACs) have been set up in the APG, ENFE and ENC, with all committee members having been trained in regard to the purposes, operation and responsibilities of these committees, in methods of classifying and evaluating worker skills, and in modern job-hunting techniques. These committees, in turn, have negotiated and entered into agreements with unions in State-owned enterprises in support of transparent, participatory mechanisms for effecting reductions in force. They have also established ties with NGOs scheduled to help furnish job retraining services and have contacted representatives of business associations to discuss employment possibilities for displaced workers.

B. Past experience with manpower adjustment operations

- 2.8 With manpower adjustment programs for displaced workers in industrial countries showing mixed results, the Bank has set up a number of pilot programs for displaced workers in the region financed by the Multilateral Investment Fund to test methods and seek solutions suited to prevailing conditions in Latin America. To date, the MIF Donors Committee has approved three pilot programs: one in Uruguay (MIF/AT-14) based on the participatory Canadian model, a second "supply-side" program in Colombia (MIF-AT-12), and a third program in Chile (MIF/AT-31) to outsource displaced-worker training and assistance packages, in order to strengthen the capability of private firms and nongovernmental organizations to provide training and services for displaced workers. The Loan Committee has also approved a pilot program for Peru using private-sector resources in rural and urban settings.

III. THE PROJECT

- 3.1 The proposed pilot project will develop a private, decentralized, participatory model using elements of similar programs conducted in Canada, Peru, Colombia and Chile as recounted above. The project proposed for Ecuador, while using the participatory Canadian model as a basis, will also strengthen available technical capabilities and use a private executing agency to coordinate and manage the program. More specifically, the Ecuadorian model will employ participatory manpower adjustment committees (MACs) with members from both management and labor, as in the Canadian and Colombian systems. In addition, it will furnish each of these committees with better technical support, using private and nongovernmental agencies to coordinate and facilitate program implementation and provide specific services. The program also includes provisions for the possible transfer of the private/participatory management model to government agencies.
- 3.2 Roughly 4,000 employees are expected to be displaced from the above-mentioned three State-owned enterprises (APG, ENFE and ENC) and from the Quito Municipal Water Company (EMAP-Q). These workers and the four enterprises in question display a number of characteristics which qualify them as good subjects for a pilot project designed to be eventually replicated on a larger scale. First, many of the workers involved have limited qualifications, abilities or skills, or those they do have are obsolete or hard to transfer over to the private sector after having worked at the same job for the past 10 or 20 years without being exposed to the use of modern technology and working methods. Second, these workers are simply not geared to the private sector's labor market, having been protected by the government with secure jobs, and lack both the knowledge and the will to hunt for new jobs and explore

new options. Third, as a result of the above, there is the danger that workers receiving buyout payments may feel overly secure from a short-term perspective and refrain from making a serious effort to find alternative employment. Fourth, the lack of incentive to undertake new activities makes it harder for these workers to devise and put together ideas for self-employment projects. Fifth, with their limited knowledge and qualifications and poor motivation, displaced workers are at a disadvantage in attempting to compete with other jobless workers for permanent employment.

A. Objectives

- 3.3 The general objectives of the pilot project are to build and strengthen the technical and operating capacity of private organizations to oversee, organize and furnish vocational counseling, training and assistance to workers displaced as a result of the States's privatization and restructuring process and help allay the social effects of structural reforms. Its specific objective is to test a job retraining and outplacement system involving 4,000 workers displaced from four State-owned enterprises by employing private, decentralized, participatory mechanisms.

B. Project description

- 3.4 The program will offer various types of outplacement services to approximately 4,000 workers at the APG, ENFE, ENC and EMAP-Q selected, in both cases, based on previously established eligibility criteria, and distributed among the four regions of the country as follows:

SERVICES/REGION	APG	ENFE	ENC	EMAP-Q	TOTAL
VOCATIONAL GUIDANCE	900	900	1,500	700	4,000
Region I: Guayas, Los Ríos, El Oro	900	150	150	0	1,200
Region II: Pichincha, Imbabura	0	500	700	700	1,900
Region III: Tungurahua, Chimborazo, Azuay	0	225	225	0	450
Region IV: Manabi, Esmeraldas	0	25	425	0	450

- 3.5 The program will be organized around the following three components and implemented accordingly: (a) identification of services needed; (b) delivery of outplacement services; and (c) transfer of experiences and program sustainability.

1. Identification of services needed

- 3.6 This component includes: (i) the selection of employees and enterprises to take part in the program; (ii) the preparation of profiles of participating employees; and (iii) vocational counseling. These activities will be conducted directly by the manpower adjustment committees with technical support furnished by the executing agency and service providers.

a. **Selection of enterprises:** The aforementioned four State-owned enterprises were selected to take part in the pilot program based on their ability to meet the established eligibility criteria. These criteria, adjusted based on the experience gleaned from the pilot project, could be used for a subsequent expanded manpower adjustment program.

b. **Selection of participating employees:** All workers displaced from the aforesaid four State-owned enterprises would be allowed to volunteer for the program provided they meet previously established eligibility requirements (Annex III), to be enforced at the discretion of the manpower adjustment committees. These criteria will be jointly reviewed by the MACs and the program executing agency and may be subsequently adjusted to fit the special circumstances of each government enterprise.

c. **Preparation of profiles for participating employees:** One of the first scheduled activities is to conduct a personal interview with each selected employee to assess the adaptability of each program participant using classification and evaluation methods designed by specialists, with the resulting information entered in a data bank on program participants.

d. **Vocational counseling:** Participating workers will be furnished with information and assisted in making better employment-related decisions through courses/workshops addressing topics such as: (i) how a worker can become an effective job seeker; (ii) knowing oneself and gaining insight into life-long planning, particularly in regard to the framing of educational and employment strategies; (iii) information with respect to conditions on the job market; (iv) present and medium-term future opportunities; (v) guidelines for recognizing one's abilities and identifying the skills required for each type of job; (vi) making decisions on how and where to look for employment; and (vii) framing a letter of introduction, resumé writing, interviewing techniques, reading the classifieds, and worker rights.

- 3.7 A vocational counseling handbook developed by an outside contractor will be furnished to each participant with basic information for conducting workshops, including exercises and examples, which will be designed to assist workers in making independent decisions. There will be enough flexibility so that each contractor can

maintain his own work style, subject to supervision by the MAC established in each State-owned enterprise, using the handbook as part of his program.

- 3.8 The outplacement agencies (OAs), generally NGOs, will prepare employee profiles and furnish vocational counseling as described above under flexible enough arrangements to allow each agency to test different procedures and activities tailored to each specific set of circumstances, working under the supervision of the MAC in each State-owned enterprise. As a minimum requirement, selected workers must attend these vocational counseling sessions and will receive a certificate of completion for the counseling program backed by the program executing agency and the corresponding MAC and OA upon meeting certain basic requirements.

2. Outplacement services

- 3.9 Upon the conclusion of the general vocational counseling phase, participating workers will need to decide whether to take advantage of the job retraining services offered in the next phase of the program or to withdraw from the program, acting on the advice of the corresponding MAC and OA. The services offered in the next phase of the program can be broken down into the following three categories: (a) permanent employment; (b) self-employment; and (c) job placement assistance.
- 3.10 **Permanent employment:** These services refer to ongoing, comprehensive activities designed by the OAs, MACs and private firms to find workers gainful employment in sought-after positions. Approximately one third of all displaced workers will receive technical training to reenter and enhance their value on the job market. The OAs will train displaced workers using established approaches with enough built-in flexibility to dispense different types of training. Three or four generic technical training modules and handbooks will be developed as defined at the onset of the project, which will become specific once required skills are identified. One option would be to train a certain number of workers in an area such as tourism, construction or another short career identified as a field in which there is a demand for workers with limited skills and there are firms willing to hire displaced workers. The MACs will play a key role in the planning of services for participating workers in their respective State-owned enterprises.
- 3.11 An estimated 60% of the workers receiving technical training will be placed as interns in private Ecuadorian firms. These internships will help displaced workers develop skills, know-how, new attitudes and new patterns of behavior for their dealings on the labor market through work experiences and will give them experience which is highly valued on the job market. Project funds may be used to pay participating interns a minimum wage for periods of up

to three months. The OAs will monitor the intern's performance, helping to ensure that the internship experience works out well, both from the standpoint of the worker and the firm. Upon completing their internships, workers will be issued certificates by the OA and the firm in question attesting to their job performance.

- 3.12 The OAs will identify private firms willing to hire displaced workers and will work with these firms to secure commitments in the form of offers of permanent employment for participants who have successfully completed their technical training and internships. Approximately 90% of all participating workers should be able to find steady, gainful employment with a private firm, with some 200 businessmen and senior or middle-level managers in private enterprises working with the OAs to reach approximately 75 agreements between NGOs and individual firms for the placement of participating workers.
- 3.13 **Self-employment:** Roughly 40% of all participants are expected to display an interest in and the necessary qualities for going into business for themselves setting up microenterprises or carrying on an independent trade or profession. A combination of proven tools will be used for this group of workers, such as technical briefings, training courses/workshops, technical assistance and advisory services and group membership and support. Since the program has no credit arrangements of its own, NGOs with credit facilities at their disposal as part of other programs will be engaged. The full gamut of program services will be offered in all four regions of the country, through some five to ten NGOs specializing in the strengthening of microenterprises with contracts as the service providers.
- 3.14 Technical training services for self-employment will consist of courses/workshops in management, accounting, organization, business administration and entrepreneurship. A general technical training manual and methodology will be developed together with specially-designed handbooks tailored to participating worker needs. Another option is to enroll workers in courses conducted by the Servicio Ecuatoriano de Capacitación Profesional (SECAP) [Ecuadorian Job Training Service] or another agency, or the OA could offer to design a special in-house technical training course. Technical training may be combined with internships in which displaced workers are placed in small firms engaged in the same line of business in which they have displayed a personal interest. Each participant will be assigned to a specialized NGO for advisory assistance in legal and financial matters, preparation of project profiles, etc. during the course of their preparation for setting up their own microenterprise. The decision will be made based on geographic location and on the type of business in question, namely: manufacturing, sales or service.

- 3.15 **Job placement assistance:** Displaced workers choosing not to take advantage of job retraining services or deciding not to complete the full cycle of services described above will be eligible for job placement assistance. A series of modules will be designed based on interviews and the study of participating worker profiles, tailored to the needs of this group of workers. These services will draw on information supplied by the data bank on job opportunities and on profiles of participating workers and private firms. Approximately 1,300 persons may use these services.

3. Transfer of experiences and sustainability

- 3.16 Expanding the privatized, decentralized, participatory model on a nationwide scale for use in the broad-based State rightsizing process and in reorganizations of private firms requires: (i) framing a proposal for expanding the model based on the pilot project; (ii) defining the role of government agencies in the pilot project; and (iii) consolidating efforts to ease regulations on the labor market.
- 3.17 **Expanding the proposed model:** The operation of the pilot program will be assessed from the standpoint of its impact, both on the institutional framework and characteristics of the labor market in order to foster its establishment as a permanent mechanism, with its scope extended to meet restructuring needs of the entire public sector and of private firms. The program will be reviewed with regard to its effects on worker income and on the substitution or displacement of private employment, on the efficiency of restructuring processes in State-owned enterprises, on unemployment and underemployment, and on prospects for setting up MACs in private firms to assist in their reorganization. Workshops/seminars attended by members of MACs, OAs, the executing agency and State-owned enterprises will draw conclusions with respect to the pilot project and present recommendations for expanding job retraining services on a nationwide scale. These studies will be performed by a specialized firm selected by the Bank to conduct the ex post evaluation of the program drawing on information produced by the monitoring and follow-up system.
- 3.18 **Involvement of State agencies:** Program demonstration effects will promptly be made the most of through the process of bolstering government efforts to set up services under the national program for the gainful employment of voluntarily furloughed public workers established by executive order on November 8, 1994, with the participation of CONAM, the MTRH, SECAP and SENDA [National Administrative Development Department]. The process of transferring know-how with respect to the management and organization of job retraining services (organization and operation of MACs, selection of OAs and corresponding contracting procedures, operation of data banks, etc.) will operate as follows: (i) The executing agency will take on qualified personnel seconded from participating

government agencies on a temporary assignment basis, on leave without pay or under any other arrangement allowing the personnel in question to take part in the activities of the executing agency, OAs or MACs. (ii) Commencing in the second half of the program execution period, the executing agency will furnish the four government agencies with the equivalent of up to three consultant-months of services for the transfer of program-related know-how to these agencies. (iii) The government agencies will allow the MACs, OAs and the executing agency to interface with their data banks and, in turn, will be given access to program data banks under contractual arrangements, either free of charge or against payment of a small fee.

- 3.19 **Labor market reforms:** The government is in the process of implementing the action plan referred to in paragraphs 2.4 and 2.5 above to facilitate the absorption of displaced public-sector workers into useful employment. Accordingly, it is revamping legislation, regulations and practices fostering a persistently tight labor market, including contracting procedures, the wage and salary system, grounds for strikes, arbitration procedures for labor disputes, etc. The action plan also includes provisions for restructuring the organization and management of the MTRH and strengthening its technical functions, evaluating the placement bureau, upgrading the system of labor market indicators and modernizing the National Job Institute.

C. Cost and financing

- 3.20 Direct program costs are estimated at US\$4,812,000, of which US\$3,949,000 are being requested from the MIF, with the remainder to be furnished by the four State-owned enterprises and by government employees taking part in the program. The State-owned enterprise contribution will cover the cost of wages and salaries payable to workers selected to take part in the program for an average of two weeks, MAC operating costs, personnel seconded to the executing agency to share in the program experience, and information services on program participants. Workers selected to benefit from additional program services upon completing the vocational counseling phase will pay a one-time enrollment fee regardless of whether they participate in one or more of the services offered, amounting to a total of approximately US\$100,000. The following table shows direct program costs, expressed in thousands of U.S. dollars.

ITEMS	MIF	STATE-OWNED ENTERPRISES AND WORKERS	TOTAL
SERVICES	<u>3,006.0</u>	<u>845.0</u>	<u>3,851.0</u>
Support and advisory assistance to MACs (4)	80.0	30.0	110.0
Selection of program participants (4,000)	20.0	10.0	30.0
Vocational counseling (4,000)	440.0	375.0	815.0
Data banks (2)	110.0	10.0	120.0
Technical training (1,200)	392.0	250.0	642.0
Internships (700)	372.0	100.0	472.0
Follow-up (1,080)	208.0	30.0	238.0
Microenterprises/self-employment (1,500)	1,099.0	20.0	1,119.0
Job placement assistance (1,300)	285.0	20.0	305.0
EXPANSION, COORDINATION AND SUPERVISION	<u>453.5</u>	<u>18.0</u>	<u>471.5</u>
Transfer of know-how and program expansion	60.0	8.0	68.0
Program monitoring and follow-up	100.0	10.0	110.0
Coordinator and corporate advisors	293.5		293.5
ADMINISTRATION	<u>389.5</u>		<u>389.5</u>
Administrative staff	103.5		103.5
Travel and per diems	25.8		25.8
Equipment	20.0		20.0
Office expenses and overhead	170.2		170.2
Program promotion	40.0		40.0
Contingencies	30.0		30.0
EX POST EVALUATION	<u>100.0</u>		<u>100.0</u>
TOTAL	3,949.0	863.0	4,812.0

3.21 In addition to the direct program costs, the government and State-owned enterprises will be required to make buyout payments under the provisions of the Modernization Act averaging out to approximately US\$6,000 per worker and under the provisions of collective bargaining agreements in the specific case of port workers. These buyouts, valued at approximately US\$30 million, are a requirement for participating in the program and represent a major effort on the part of the Ecuadorian government.

D. Program management and execution

3.22 The executing agency will be directly responsible for general program coordination, supervision and management, contracting out the various services scheduled to be offered to program participants to outplacement agencies (OAs). Monitoring responsibilities during program execution will be vested in a specialized firm, which may not be directly or indirectly involved in any way in the performance of these services.

3.23 It is proposed that Fundación Ecuador serve as the program executing agency. This organization was selected from an original list of 11 organizations operating in the human resources area in

Ecuador, which was subsequently reduced to a short list of five organizations meeting previously established eligibility criteria, which were invited to submit technical and financial proposals based on terms of reference developed specifically for such purpose. Fundación Ecuador will place an office in Quito and a second office in Guayaquil at the program's disposal and will engage the services of a general coordinator, advisors for State-owned enterprises and private firms in both cities, and office managers and support staffs for both offices.

- 3.24 The main responsibilities of the executing agency are to run the program, select and propose contractors for the MACs to hire to furnish services to workers, enter into contracts with OAs, supervise service performance under the aforesaid contracts, contract out and oversee the operation of a program execution monitoring system, and furnish the Bank with regular progress reports on project implementation. The executing agency will review and establish operating procedures for the efficient operation of MACs, prepare a project brochure and engage in promotional activities at the onset of the project. Prior to the start-up of project implementation, it will also frame a program execution plan with a work plan for the 18 months of program execution showing all activities to be conducted.
- 3.25 The executing agency will set up a data bank with information on displaced workers and on any firms displaying an interest in recruiting them, including standard procedures for the selection and processing of participating workers, a central file and a master file to facilitate efforts to assist displaced workers. The data bank will be set up in such a way that it can be accessed directly by the executing agency, MACs, government agencies, OAs and participating firms.
- 3.26 Manpower adjustment committees (MACs) have already been set up at the APG, ENFE and ENC and their members have been trained in regard to their responsibilities. MACs are joint committees with members drawn from both management (or management representatives) and labor (or labor representatives), whose main tasks are to: (a) identify displaced workers interested in taking part in the program; (b) establish worker training needs; (c) help select OAs; and (d) help employers and their workers adapt to the demands of a more efficient work environment. The MACs set up in participating State-owned enterprises will be in charge of promoting the program within their respective organizations, with each committee preparing a concise brochure early in the program execution process explaining program objectives and expected benefits and repercussions.
- 3.27 The outplacement agencies or OAs will furnish virtually all services required for direct project execution purposes, namely: selection, vocational counseling, training, internships, technical assistance for setting up microenterprises and job placement

assistance. Approximately fifty NGOs, Ecuadorian foundations, private associations and federations, and consulting firms have been identified as prospective contractors to furnish services to the project. The executing agency and MACs will conduct a workshop for prospective OAs in the early stages of the project to explain the project per se and the role of participating organizations in its execution.

- 3.28 The executing agency will select and award contracts to OAs based on terms of reference developed in conjunction with the MACs according to Bank-established contracting procedures. A portion of the fees payable for services rendered by OAs will be based on performance. Thus, the percentage of service costs payable based on results can range from as high as 50% for services with lower unit costs, such as vocational counseling services, down to 33.3% for services with higher unit costs, such as setting up micro-enterprises. Performance will be defined precisely for each service in the terms of reference and the service delivery contracts and will be monitored and verified through certificates issued jointly by the respective MAC, the executing agency, and the private company, if applicable.

E. Program execution schedule, expected results and reports

- 3.29 The program execution period is 18 months, commencing as of the date of signature of the agreement between the Bank and the Fundación Ecuador. The disbursement period is 30 months to allow for completion of the ex post evaluation of the program.
- 3.30 The work plan to be drawn up by the executing agency for Bank approval will be designed to produce the results for the various program components within the time frames established in Annex I.
- 3.31 The executing agency will furnish the Bank with quarterly reports throughout the program execution period describing all activities, with separate chapters for each State-owned enterprise, accompanied by a copy of reports from the program monitoring agency. The executing agency will also furnish the Bank with a final report at the conclusion of the program describing its execution, management and achievements, again with separate chapters for each State-owned enterprise. The executing agency will forward copies of these reports to CONAM, MTRH, SENDA and SECAP.

F. Monitoring and follow-up of program delivery

- 3.32 The executing agency will be responsible for overseeing the implementation of a program execution monitoring plan, to which end it will engage the services of a specialized agency with Bank-approved terms of reference. This agency may not furnish services as an OA. The main aspects of program execution to be addressed by the follow-up process include the performance of and any major problems encountered by the executing agency, the flexibility of

contracting and payment procedures for OAs, the performance of OAs and costs of services rendered, the responsiveness of displaced workers (their interest, continued participation in the program and achievements), the program's success as an outplacement mechanism (the percentage of workers placed in new jobs, the length of the job search, job quality and job security, etc.), and the number of displaced workers vis-à-vis the number of program beneficiaries (broken down by gender, occupational status, age, etc.)

- 3.33 The monitoring plan will include definitions and a system for collecting information on project indicators. The MACs will be responsible for assisting with data collection efforts in each State-owned enterprise according to the monitoring system designed for that particular enterprise. The monitoring agency will furnish the executing agency with quarterly progress reports throughout the program execution period and with two capsule performance reports six and twelve months into the program execution process.

G. Disbursements

- 3.34 The executing agency will be required to furnish the Bank with evidence of the following as a condition precedent to the first disbursements under the program:
- a. Signed contracts with the coordinator, the two technical advisors and the manager for 18 months of full-time services according to the terms of reference agreed upon with the Bank;
 - b. A Bank-approved work plan for program execution, with a schedule of activities and expected results; and
 - c. A short list of specialized agencies to design and implement the program monitoring plan using Bank-approved indicators.

IV. FEASIBILITY AND RISKS

- 4.1 The enabling legislation for launching the State modernization process has already been passed, and policy-makers have demonstrated their resolve to see it through by proceeding to set in motion the process of rightsizing the central government and a number of State-owned enterprises. Corresponding reductions in force are already under way, creating a pressing need for job retraining services.
- 4.2 MACs have already been set up in three State-owned enterprises and their members have been trained in program procedures by specialized government contractors. These experiences have confirmed the interest and enthusiasm of employees in supporting a participatory manpower adjustment program.

- 4.3 There are adequate numbers of organizations interested in and capable of furnishing retraining services in the areas of residence of prospective displaced workers. The MACs have approached private firms and have confirmed their interest in supporting proposed outplacement mechanisms for displaced workers.
- 4.4 Despite the fact that program preparation activities provide good assurances of its feasibility, successful program execution is subject to certain risks, which are hopefully mitigated by its flexible design as far as the types of services to be offered are concerned, and which should be controlled through timely monitoring and follow-up throughout program execution.
- 4.5 There is some uncertainty in regard to the successful outcome of efforts to find gainful employment for displaced workers in the private sector due to a possible unwillingness on the part of prospective employers to hire any new personnel in general and former civil servants in particular. As the executing agency, Fundación Ecuador, a prestigious organization whose membership includes some of the country's largest employers, will conduct a vigorous promotion campaign to secure the cooperation of private firms for the fulfillment of program objectives.
- 4.6 The magnitude of the resources required to furnish retraining services to the numbers of workers expected to be displaced over the course of the next three years (approximately 15,000) is such that the expandability and sustainability of the pilot project on a nationwide scale must be demonstrated. If the pilot project shows satisfactory economic and social returns, sources of financing to furnish required retraining services on that scale will have to be identified.

V. PROJECT ELIGIBILITY CRITERIA

- 5.1 General project eligibility criteria. MIF financing for the implementation of a pilot project designed to facilitate the outplacement of displaced public-sector workers in private-sector jobs is fully consistent with the general objectives of the Multilateral Investment Fund and, more specifically, with the provisions of Article I (d) (ii) referring to the bearing of certain costs in associated with investment reforms and an expanding private-sector. The know-how gleaned from this project can help facilitate efforts to broaden the ongoing modernization and restructuring process set in motion by the Government of Ecuador.
- 5.2 Eligibility criteria for Human Resources Facility projects. The proposed project meets all criteria for nonreimbursable Human Resources Facility funding under the provisions of Article 3,

Section 3(a), of the MIF Agreement, which provides funding for the training of workers displaced as a result of reforms geared to boost private investment and cut public spending.

VI. PROGRAM COMPATIBILITY WITH THE BANK'S COUNTRY STRATEGY

- 6.1 The Bank's strategy for Ecuador is geared to consolidating the government's structural reform program, targeting two main areas, namely: private-sector growth and poverty reduction. Modernization, restructuring and downsizing programs for the Ecuadorian public sector should foster private-sector growth and boost private investment while, at the same time, creating a larger supply of better paid, productive jobs. Retraining will promote gains in labor productivity and help raise real wage levels. The easing of regulations on the labor market will facilitate the reabsorption of displaced workers into useful employment, thereby allaying the social costs of modernization.

VII. AVAILABILITY OF MIF RESOURCES

- 7.1 Funding modality. In light of the following considerations, the project is expected to be financed by means of a grant: (a) The Donors Committee declared Ecuador eligible for all MIF financing modalities on September 7, 1994. (b) Section III of the country eligibility memorandum furnishes information with respect to Ecuador's compliance with grant eligibility criteria at the country level. (c) The proposed project will have an important catalytic effect on investment flows, as required by the provisions of Article 3, Section 5(a), of the Agreement Establishing the Multilateral Investment Fund, in the sense that it is geared to downsizing government and boosting private-sector growth. Compliance with these criteria was confirmed by the March 30, 1994, meeting of the Donors Committee (MIF/GN-23).

VIII. EX POST EVALUATION

- 8.1 An evaluation will be initiated in the last stage of the program execution process to verify the fulfillment of its objectives and the achievement of expected results, drawing on information produced by the monitoring system set up during program execution. The evaluation process will include a study of the program's institutional arrangements, a measurement of project effects on participants, and a qualitative study of the performance of MACs, OAs, the executing agency and participating firms. The ex post evaluation will also include a project cost-benefit analysis and

will draw conclusions with respect to the feasibility and advisability of expanding the pilot project on a nationwide scale.

- 8.2 The Bank will complete contracting procedures for procurement of the services of a specialized firm to perform the ex post evaluation of the program within six months of the date of signature of the agreement, with the first evaluation to be conducted during the twelfth month of the program execution period. A comprehensive ex post evaluation will be performed within six months from the conclusion of the program execution period. The firm hired will submit a final report within nine months from the project completion date, along with a proposal for program expansion on a nationwide scale.

ANNEX I

MIF - FACILITY II - ECUADOR - MANPOWER ADJUSTMENT PROGRAM		
General project objective To strengthen the technical and operating capacity of government agencies and private organizations to furnish job retraining services to workers displaced from public-sector jobs as a result of the State privatization and modernization process using decentralized, participatory mechanisms, along with incentives designed to enhance the efficiency of the job retraining process.		
Specific project objectives To furnish vocational counseling, training and assistance to approximately 4,000 displaced APG, ENFE, ENC and EMAP-Q workers to secure employment in the private sector and to transfer the organizational and administrative know-how gleaned from the project to government agencies operating labor retraining services on a larger scale.		
Components	Activities	Expected results
A. Identification of service requirements	1. Selection of employees and firms to take part in the program.	1. The four participating State-owned enterprises have been selected and eligibility criteria for employees have been established. Three MACs have been set up and their committee members trained.
	2. Preparation of profiles of participating employees and firms and organization of a data bank.	2. Completion of profiles of participating employees and hiring of a contractor to set up the data bank by the end of the third month of program execution.
	3. Vocational counseling for 4,000 workers.	3. Completion of vocational counseling for registered participants by the end of the sixth month.
B. Job retraining services	1. Technical training for permanent employment for roughly 1,200 participants.	1. Commencement of technical training services for participants having completed the vocational counseling program by the end of the sixth month.
	2. Placement of roughly 700 participants as interns in private firms.	2. Commencement of internships for participants having completed their technical training by the end of the eighth month.
	3. Training courses/workshops, advisory and technical assistance services for self-employment and the organization of micro-enterprises for approximately 1,500 participants.	3. Commencement of service delivery to selected participants by the end of the eighth month.
	4. Job placement assistance, information and counseling.	4. Service delivery to eligible participants beginning in the sixth month.

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Component	Activities	Expected results
C. Transfer of experience and program sustainability	1. Agreement between the executing agency and government agencies for the transfer of experience gleaned from the pilot project. 2. Proposal for expanding the delivery of job retraining services on a nationwide scale.	1. Signature of an agreement for such purpose by the end of the third month of the program execution period. 2. An initial evaluation report by the end of the twelfth month and a final proposal by the end of the eighteenth month.

PROPOSED RESOLUTION

ECUADOR. TECHNICAL COOPERATION TO DEVELOP A LABOR RECONVERSION PROGRAM.

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary and to take such additional measures as may be pertinent for the execution of the project referred to in document MIF/AT- with respect to a technical cooperation with Fundación Ecuador of Ecuador, to develop a Labor Reconversion Program.

2. That up to the amount of US\$ 3,949,000 is authorized for the purpose of this resolution, chargeable to the resources of the Human Resources Facility of the Multilateral Investment Fund.

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