

## PROJECT MEMORANDUM

### CHILE

(TC-93-07-29-1)

#### EXECUTIVE SUMMARY

**PROJECT NAME:** Pilot program to contract out retraining and placement services to the private sector

**PROJECT NUMBER:** TC-93-07-29-1

**EXECUTING AGENCY:** Ministry of Labor and Social Insurance through the National Training and Employment Service (SENCE)

<b>PROJECT AMOUNT:</b>	MIF	US\$1,840,897
	Local counterpart	US\$1,202,703
	Total	US\$3,043,600

**DURATION:** 24 months, with an additional six-month period to complete disbursements already committed

**MIF FACILITY:** Human Resources (Facility II)

**OBJECTIVES:** The main objective of the program is to test a system for contracting retraining and placement services out to the private sector for workers who have lost jobs in sectors in decline and who lack the resources to cope with the search for new employment on their own. The test will involve a population of up to 1,000 workers who were displaced from the textile and coal industries and a third sector to be agreed upon, who are expected to be reemployed as a result of the program.

**DESCRIPTION:** This would be a pilot program and would operate by contracting, through an open bidding process, the services of private institutions known as "retraining and placement agencies" (RAs), to teach new skills to pre-defined groups of unemployed workers and find jobs for them.

The main component of the program is workforce retraining and placement. It entails a package of services aimed at finding new jobs for displaced workers, which will be contracted out to private institutions known as RAs. The RAs will have the flexibility to design individual packages of services together with workers which maximize their chances of

finding employment. The packages may include training, counseling, vocational guidance, relocation, and instruction and equipment for independent work.

The program contains a novel payment system aimed at motivating the RAs to become involved in providing complete retraining and placement services, with payment tied to performance. Performance will be measured by the placement of unemployed workers and by the quality of their jobs.

The program's supplementary activities involve monitoring of the pilot experience, obtaining the maximum information from it, and making a start on the studies required to expand the program.

The project contains several innovative features in that it: (i) uses private institutions to provide personalized packages of services to displaced workers, which include vocational guidance, retraining, and placement; (ii) introduces incentive mechanisms to motivate the placement of an increased number of unemployed workers in jobs of higher quality; and (iii) includes a system of monitoring and follow-up which will provide the information required to make adjustments to the program.

**BENEFICIARIES:** The program's focusing mechanisms ensure that all beneficiaries will come from low-income families.

**TYPE OF FINANCING:** Grant

**SPECIAL CONTRACTUAL CONDITIONS:** Given the nature of the package of services financed under the program, the special conditions require that the RAs be subject to a selection process similar to that used by the Bank in labor training projects operationally comparable to the one proposed here (see paragraph 3.28).

**PROJECT TEAM:** Jacqueline Mazza (MIF) and Ramón E. Figueroa (COF/CCH), Project Team Leaders, and Xavier Comas (DPP/POL). Consultant: Guillermo Morales.

## I. COUNTRY ELIGIBILITY

- 1.1 On October 6, 1993, the Donors Committee declared the Republic of Chile eligible for all Multilateral Investment Fund sources of financing.

## II. BACKGROUND

- 2.1 Chile has been undergoing a profound restructuring of its economy, privatizing State enterprises, rationalizing State government, and opening up to greater foreign competition and investment. Today, Chile has one of the most open economies in the region. The process of continual adjustment to market forces and international competition render vulnerable to job loss the more traditional, lower productivity segments of the Chilean labor force. Despite overall positive growth rates in Chile of 4% in 1994 and unemployment of 6%, pockets of concentrated structural unemployment exist. The presence of unemployed displaced workers has both a social and an economic cost. The displaced worker populations are often low-income and lack the means to acquire more modern work skills to secure new jobs in the economy. Persistent un- or under-employment of these populations impede the overall, long-term growth prospects of Chile. Chile, given the small size of its workforce and limited projected growth in population, must rely on a more productive use of the existing workforce to continue to maintain high growth rates. Among the sectors and workforces facing the characteristics of long-term decline in employment and heavy displacement of low-income populations in short periods of time are coal mining and the lower productivity textile subsector of fabrics and threads. These sectors are characterized by low-income workforces which have highly specialized industrial skills developed over many years, skills which are not readily adaptable to jobs in the economy today without significant retraining.
- 2.2 The textile and ready-to-wear (*confecciones*) clothing sectors in Chile are relatively significant, comprising 6% of industrial production and 9% of industrial employment, 75,000 workers in all. It is a sector under heavy foreign competition, with great variation in productivity and international competitiveness. The sector is comprised of some 1,000 firms and 3,000 microbusinesses. While there has been an increase in exports by the more advanced firms principally in the ready-to-wear subsector from 1990 to 1993 of 50%, the 40 most important firms in fabric and threads (*hilados y tejidos*) have suffered a severe adjustment since 1990. In 1993, 5,000 workers were displaced from the sector, roughly 6.7% of the sector's employment. Displacement is largely in the Santiago region and occurs disproportionately among lower income workers and women. These workers possess outmoded skills and are not easily

absorbed even into a growing urban economy. Additional layoffs are anticipated in 1995 of at least 2,000 - 3,000 workers.

- 2.3 The coal mining sector has faced continual cyclical crisis and decline in employment for nearly 30 years. Extremely high government subsidies to firms characterize the sector even as mines are closing and scaling down. The sector is concentrated heavily in Region VIII (including the cities of Concepción, Coronel and Lota), roughly 515 kilometers south of Santiago. The coal sector is comprised of three principal firms, the state firms of ENACAR (the largest), CARVILE, and Schwager S.A., private operators, and individual extractors (*pirquineros*) who pick up coal from local beds. The entire sector from the largest to smallest operator is faced with severe technological adjustments and higher costs of production, making Chilean coal largely uncompetitive worldwide (the price of domestic production versus imported coal, for example, is roughly US\$80/ton to US\$50/ton). The area has depended heavily on coal for employment for generations, although there are alternatives being sought particularly in fisheries and forestry. Since the 1970s, coal mining employment has been reduced by around 20,000 to approximately 3,000 in March of 1993 (workers in firms). A key private mine, Schwager S.A., is scheduled to close completely in February of 1995, affecting at least another 600 workers. Additional layoffs could also come from the state firms.
- 2.4 The government initiated a program for displaced coal workers in the Region VIII in 1992. The program was based on a concept known as "vouchers" in which workers were eligible for a specified level of benefits (approximately US\$2,750) which could be used to purchase a menu of retraining, equipment for microbusinesses, relocation, maintenance payments, and other benefits. Evaluations of the program conducted by MIF consultants and by contractors for the government highlighted a number of problems in the operation of this labor reconversion program, including:
- The link between benefits and reemployment was weak, with no incentive in the system to actually insure workers found new jobs. The number of workers receiving new jobs was low and training was often conducted without consideration of labor market demand.
  - The assignment of a fixed "entitlement" of benefits per worker refocused the worker's orientation on using up the entitled benefits rather than using the benefits as a means to obtain employment. The fixed level of benefits distorted expenditures in that some workers who had more serious reemployment difficulties needed a greater level of services and benefits and others needed far fewer benefits than the program provided.
  - The program included a number of government service providers, with no one entity overseeing the progress and development of an individualized plan for each worker.

- There was no provision for psychological counseling and job adjustment services particularly needed for the coal population.

The coal voucher program is scheduled to expire in February 1995 with no plans for renewal.

- 2.5 The Chilean government has expressed interest in developing a long-term mechanism for retraining and reemploying workers displaced from declining sectors. As part of this effort, the government is first seeking MIF assistance to begin, on a pilot basis, a program aimed at testing new private sector approaches to more effectively reemploying displaced workers, a methodology which could become the basis for the longer-term program. The pilot program would begin by focusing on the immediate demands for the retraining and reemployment of coal and textile workers. The new pilot program is intended to overcome a number of the deficiencies noted in the coal voucher program. The use of private sector providers to deliver a package of training and services as envisioned in the program has been utilized extensively in advanced industrial countries but has very limited experience to date in Chile. The Chilean government has expressed its interest in making a second request for assistance to expand to a long-term program, based on the pilot experience.
- 2.6 The collaboration of the government and private sector in the area of displaced workers is part of an overall policy being pursued by the Government to involve the private sector even more concretely in the shaping of overall economic and labor market policies in Chile. The government has recently created the "Institutional Forum" comprised of representatives of the private sector, labor unions, and government to articulate and direct the efforts of the government and private sector in increasing the productivity and competitiveness of the country. The forum is comprised of technical committees, one of which is the human resources and productivity committee which will guide overall policies regarding training and displaced workers.
- 2.7 The Bank has had previous experience in the "contracting out" of labor training in a number of youth training programs, including for Chile (CH-0024) and Argentina (AR-0062) and a training program for Paraguay (PR-0038). These operations are distinct from that currently proposed, in that what is contracted out are specific training courses and apprenticeships. The current operation contemplates the contracting out to the private sector of a package of services and training aimed at securing the reemployment of a pre-defined group of workers, a practice more common in industrialized countries. The most similar experience of the Bank to the currently proposed project is Subprogram III of the Labor Reconversion Program for Argentina (AR-0062) which contracts out labor training and services for Argentine workers. This subprogram is scheduled

for execution later in the loan period and thus a number of operational elements are to be defined at a later point, subject to conditions set forth in the loan.

### III. THE PROJECT

#### 1. Program objectives

- 3.1 The program's general objective is to facilitate rapid and stable reemployment for workers displaced (or at risk of being displaced) from sectors or activities that are in sharp decline, who are unable to acquire new skills unassisted.
- 3.2 The main objective of the program is to test a system for contracting job retraining and placement services out to the private sector for workers who have lost jobs in sectors in decline and who lack the resources to cope with the search for new employment on their own. The test will involve a population of up to 1,000 workers who were displaced from the textile and coal industries and a third sector to be agreed upon, who are expected to be reemployed as a result of the program.
- 3.3 Through the program's activities, the country hopes to set up a permanent job retraining program. The pilot program expects to place up to 1,000 workers either in salaried positions or in microbusinesses.

#### 2. Project description

##### Overview

- 3.4 The main component of the program is workforce retraining and placement, which is accompanied by supplementary technical assistance activities, monitoring, and evaluation. The job retraining component refers to a package of services aimed at reemploying displaced workers, which will be contracted out to private institutions, known as retraining and placement agencies (RAs) through public tenders, in which bidders would compete by submitting job retraining plans especially designed for the types of workers who are the targets of the proposal. The program contains a novel payment system aimed at motivating the RAs to become involved in providing complete reemployment services, with payment tied to performance. Performance will be measured both by placement of unemployed workers and by the quality of their jobs. The program's supplementary activities involve monitoring the pilot experience, obtaining the maximum information from it, and making a start on the studies required to expand the program.

### Principal reemployment component

- 3.5 The bidding processes will be public and based on the principles of transparency, economy, and participation of the MIF member countries. In each call for bids, an RA will be selected which will be responsible for designing and executing the specific plans for groups of workers in a pre-identified sector. The RAs invited to submit proposals for specific reemployment plans for such target groups will be evaluated both on the quality of their technical designs and on their financial proposal.
- 3.6 The RAs are intermediate agencies or second floor institutions which assist displaced workers in finding jobs either as salaried workers or in microbusinesses. Institutions of this type have been operating for some time in industrialized countries. They may be training institutions, NGOs, or consulting firms. The RAs may act as individual firms or in consortia, and may execute the program directly or select third parties for that purpose. A list of 40 Chilean institutions which have already expressed interest in acting as RAs is included in Annex IV. Only from two to six RAs (one or two per sector) will be financed under the pilot program.
- 3.7 The RAs will have the flexibility to design an individual package of services which maximizes the chances of obtaining employment for each of the displaced workers in salaried jobs or independent work (for example, microbusinesses). The package of reemployment services offered may include the following activities:
  - a. Counseling and vocational guidance, including psychological support.
  - b. Retraining for new jobs.
  - c. Training.
  - d. Subsistence grants.
  - e. Provision of equipment and tools to workers who opt for independent work.
  - f. Incentives to companies to offer retraining.
  - g. Relocation to a new geographical area.
- 3.8 Information and guidance will be offered to all beneficiaries, while subsistence grants will apply only in conjunction with other activities, especially training.
- 3.9 The program's retraining activities are intended to help beneficiaries find employment, and will therefore exclude activities in the social welfare and productive spheres such as early retirement,

policies to stimulate economic activity, family support networks, etc.

- 3.10 The retraining plans offered by the RAs will last from six to nine months, depending on the difficulty of placement.
- 3.11 In order to make their initial proposals, the RAs will receive a data base of information from the coordinating unit created to manage the program. As explained in the following subsection 3, the coordinating unit will be responsible for providing information on the basic characteristics of the beneficiary population, local labor market demand, and additional information needed by the RAs to make an informed proposal. This information will be provided to all potential RAs at the time that the invitation for submission of bids is made.
- 3.12 Once an RA has been awarded a reemployment contract, it will prepare individual plans with specific combinations of actions for each beneficiary, attending to the beneficiary's personal characteristics and to the prevailing conditions in the relevant labor market, but adhering to the minimum requirements to ensure fulfillment of the program's objectives and equitable treatment of the beneficiaries.
- 3.13 The "individual plan of action" created for each worker is the key starting point in which the desires and skills of an individual worker are reconciled and matched with specific local employment opportunities. The RA is given a financial incentive under the program to counsel and direct workers into areas where employment exists in order to obtain the maximum number of job placements.
- 3.14 Selected sectors. Two sectors have been selected to initiate the pilot program: coal and textiles involving low-end production of fabric and threads. These sectors were selected based on criteria that they exhibited, including: medium to long-term decline in economic performance of the sector, large displacement of workers in short periods of time, the difficulty of these workers in reintegrating back into the economy without outside assistance (for reasons of outmoded work skills, limited local employment absorptive capacity, and low-income, for example). The first competitive bidding process will be undertaken for contracts for coal workers, followed by a second bid for textile workers seven months later. Careful attention will be placed on ensuring that the definition of the low-end production of textiles, agreed on between the Bank and the coordinating unit prior to the solicitation of bids, accurately captures only that portion of the sector which is in decline economically. The criteria for defining sector eligibility must be agreed on with the Bank, prior to disbursement of funds for that sector (see paragraph 3.30). The program contains the possibility of bids for a third sector of workers if the 1,000 workers ceiling is not utilized for the coal and textile sectors, with strict reporting and approval of the Bank of the selection and eligibility

criteria. The third sector must demonstrate the agreed upon criteria which include decline of sector's economic performance over time, large employment losses in short periods of time, and difficulty of reinsertion of low-income workers.

- 3.15 Individual eligibility/beneficiary population. Prior to initiating private sector bids for each sector, the coordinating unit created to manage the program must submit the specific eligibility criteria for individuals in the program to the Bank for review. These eligibility criteria are intended to concentrate the resources of the program on those most needy and most able to profit from reconversion. The criteria for eligibility cover: age, income level, professional level (only non-professionals are eligible), years working in the sector and time of displacement. For coal workers, for example, eligibility is contemplated for workers under age 45, low-income, displaced from October 1994 onwards, and at least 10 years of work in coal mining. As in the selection of the overall sector, careful attention will be drawn to the eligibility of individuals for any program in the textile sector, ensuring that only displaced individuals from specific types of firms with specific outmoded skills will be eligible for reintegration assistance. The criteria for individual eligibility, as for all sector programs, must be agreed on with the Bank prior to disbursement of funds for that sector (see paragraph 3.30).
- 3.16 System of payments. The program provides for a system of payments tied to performance which seeks to: (i) provide incentives for efficiency, that is, to maximize the results at minimum cost; (ii) reduce, as far as possible, the uncertainties of the RAs; and (iii) allow for a controllable degree of risk, both for the RA in relation to financing, and for the State in relation to the program's results.
- 3.17 To attain the foregoing, the proposed payment system will be linked to the work plan and results, using a method of deferred payments contingent on fulfillment of the stages of the work plan and obtaining employment results. Specifically, two payments associated with the processes are proposed, the first at the end of the assessment and guidance phase, and the second at the end of the retraining stage. Two further payments will be associated with results, the first when the beneficiary obtains work, and the second three months afterwards.
- 3.18 The payment to be made for fulfillment of the execution phases of the plan (processes) will be a percentage of the total price and will cover only part of the cost of the processes conducted by an RA. This percentage will reflect the objectives of decreasing the RA's risk and providing incentives for obtaining results, taking account of the composition of the total estimated costs for a typical RA.

- 3.19 The percentage of the total price which is withheld until after the program is completed will constitute a financial incentive to obtain results. The payment associated with results will be tied to the quality of the solution for the workers, considering that the retraining may result in: (i) salaried employment, in which case quality will be measured as a function of the stability of the contract, the consistency between the worker's qualifications and the qualifications required for the job obtained, and the new salary obtained by the worker; and (ii) in independent occupations, in which case quality will be measured in function of the financial viability of the activity.
- 3.20 Private sector participation. In addition to being the provider of the reemployment services, the private sector will participate in the program in three other activities. First, it will participate on the senior policy level in terms of defining labor market and training policy through the forum on productive development described earlier. Second, at the level of this pilot program, the private sector will participate in working groups set up prior to each bid call to ensure that adequate information is made available for the program's operation and design. Working groups of this kind have already been set up during program preparation and will continue to operate during its execution, on either a sector or regional basis, to attain the following objectives: ensure an adequate private sector response to the invitations to tender, facilitate the obtention of jobs by the workers included in the program, and obtain additional private sector support to assist the operation of the RAs, as required. Third, private sector representatives will sit on the bid evaluation committee to assist in evaluating the proposals from the technical and feasibility standpoints.

#### **Supplementary activities**

The program provides for the following supplementary activities.

- 3.21 Monitoring and evaluation. Considering the novelty and complexity of the proposed program, provision has been made for the monitoring and evaluation activities described in chapter VIII. The information and background required for this activity will be collected and processed from the following two principal sources. Each RA will create an information monitoring system, linked to the agency's internal management and to the individual monitoring of workers during the reemployment plan. For its part, the PCU's monitoring system will concentrate on the quality of the work performed by the RA, the workers' acceptance of their individual plans, and the behavior of local companies with regard to the program.
- 3.22 Technical assistance. In order to make a start on preparing studies for expanding the program once the pilot and project evaluation phase is completed, US\$30,000 has been set aside for sector assessments and a study of improvements in operational design which incorporate the lessons learned in the pilot stage.

### 3. Execution and coordination

- 3.23 The Ministry of Labor and Social Insurance will be responsible for program execution, which will delegate program coordination, monitoring, and evaluation to the National Training and Employment Service (SENCE).
- 3.24 SENCE is a decentralized government technical agency, whose principal functions include providing occupational guidance to workers, granting occupational training benefits, and supervising training programs developed by companies under tax exemptions granted by the government for that purpose.
- 3.25 To ensure expeditious execution of the program, SENCE will create a program coordinating unit (PCU) which will be responsible for the program's coordination and administrative management and for relations with the Bank. The PCU will use SENCE infrastructure for keeping its accounts, managing its funds, and executing actions of a legal nature.
- 3.26 The PCU's principal functions will be: (i) to inform potential RAs and companies able to provide jobs about the program; (ii) to create a basic profile of each of the workers to be included in the terms of the tender; (iii) to inform the target population about the program's features; (iv) to prequalify the RAs and evaluate their proposals, recommending which are to be awarded contracts by SENCE; (v) to monitor and evaluate the results of the reintegration process through externally-contracted services; and (vi) to propose to SENCE the subgroup of workers to be included in each bid. The MIF will provide resources for consulting and technical assistance to publicize the program, principally with regard to studies of worker profiles and private sector consulting services.
- 3.27 The coordinating unit will have a staff of six: one general coordinator, three professionals and two administrative assistants. Accounting and financial administration will be performed by SENCE's line units.
- 3.28 Proposals submitted by RAs for placement services for a pre-defined group of workers have to be evaluated on the basis of general eligibility criteria, price, and especially the technical quality of the proposal. The service required (displaced persons reemployed in new jobs) cannot be contracted out through standard procedures for the procurement of goods and related services (Annex B), nor can it be obtained under consulting contracts, in view of the type of services involved (basically training and related activities) and the need to consider price as a factor in awarding the contract. It is therefore proposed to follow the procedure used by the Bank in training projects which are operationally similar to this one, with the differences summarized in Annex D of the prospective contract.

#### 4. Cost and financing

- 3.29 The estimated total cost of the program is US\$3 million. The MIF is requested to providing financing of US\$1.4 million for the direct costs of counseling services, training, equipment, and relocation, and US\$400,000 for monitoring, evaluation, technical assistance, and price contingencies in the tenders. The government counterpart of US\$1.2 million will mainly be used for subsistence grants, incentives to companies to train their employees, payments to PCU personnel, and office expenses and minimum investments for the activities of the PCU. The program will last 24 months with six more months allowed to complete the disbursements.

COMPONENT	MIF	GOVERNMENT	TOTAL
I. Reemployment services	1,424,134	682,006	2,106,141
II. Execution, monitoring, & evaluation	286,956	46,000	314,956
III. Technical assistance	20,000	10,000	30,000
IV. PCU operating costs	0	316,968	316,968
V. Program publicity	22,500	27,000	49,500
VI. PCU investments	0	24,170	24,170
VII. External auditing	0	20,000	20,000
VIII. Contingencies	105,307	76,529	181,866
<b>TOTAL</b>	<b>1,840,897</b>	<b>1,202,703</b>	<b>3,043,601</b>

#### 5. Disbursements

- 3.30 The following have been defined as special conditions for the disbursement of funds.

For the first disbursement:

- (i) Establishment of the PCU.
- (ii) Submission of the conditions for the first call for bids.
- (iii) Terms of reference for the consultant(s) required to execute the program follow-up plan which has already been agreed upon with SENCE.

Before the disbursements for the activities in each sector, the government, through the PCU, will submit a precise definition of the following:

Coal program: the individual eligibility criteria and the anticipated number of participants.

Textile program: the individual eligibility criteria, the anticipated number of participants, and the bidding conditions revised on the basis of a preliminary analysis of the instruments, terms, and contracting conditions for the RAs in coal.

Third potential sector: Must have been declared to be in reconversion by the Chilean government. Additionally, the PCU must agree with the Bank on::

- the individual eligibility criteria for the program
- the analysis and diagnosis of the sector and target population
- the eligibility criteria for the sector
- the preliminary analysis of the instruments, terms and conditions for the RAs from previous pilot projects, and the adjustments recommended to tailor the process to the sector.

These activities and the bidding for the sector must begin prior to the eleventh month of the program in order to make use of the program's funds.

If the PCU decides to continue with the coal or textile sector in a third tender, the PCU will only be required to submit eligibility criteria, terms, conditions, and instruments for a new tender if they are different from the original ones.

- 3.31 On request of the Government of Chile, advances of funds may be granted up of to 10% of the financing. Due to the crisis in the coal sector, the program is expected to begin before the agreement is signed, and it is recommended that retroactive costs of up to US\$200,000 arising under this item be recognized in accordance with Bank policy.

#### IV. VIABILITY AND RISKS

- 4.1 Due to the novel character of the proposed method of executing the program (i.e. external contracting and payment on the basis of performance), it was decided to carry it out as a pilot program. Continuation of the program when the pilot phase has been evaluated will depend on the results of that phase and would be the subject of a separate financing operation.

- 4.2 An innovative program such as the one proposed is always subject to risks. In this case, however, it is anticipated that their impact will be minimal due to: (i) the small size of the proposed operation; (ii) the special care that has been taken to incorporate the lessons learned by the Bank in other programs, both in Chile and in other countries, into its design; and (iii) the design allows enough flexibility to make adjustments as the project progresses, should it be necessary. RAs have been operating in the industrialized countries for many years.
- 4.3 The risks which the program would face are of two types:
- (i) Risks associated with internal aspects of execution. The program's coordinating unit would be located in SENCE, which does not have direct experience in handling this type of program (although it does have indirect experience). Moreover, the program's instruments (especially its bidding conditions) have still not been tested and may require adjustments.
  - (ii) Risks associated with a possible lack of response to the program by external agents. The feasibility of executing this program will depend on the quantity and quality of the proposals submitted by the RAs.
- 4.4 The first type of risk is manageable since its most probable consequence would only be delays in the execution timetable - which is rather tight. The second type of risk is more problematic since it is contingent on the principles which have guided the program's design: decentralization, contracting out, and payment based on results. It is therefore an unavoidable risk, although controllable through the planned promotion activities and the appropriate design of mechanisms and incentives under which the program would operate. During the planning process, SENCE held meetings with the principal "external agents" which it is hoped will participate in the program, especially in Region VIII. The proposed design was examined at those meetings and it was ascertained that the incentives were adequate. Once program execution begins, however, the incentives will be monitored and, if necessary, adjusted in subsequent calls for bids.

## V. COMPLIANCE WITH ELIGIBILITY CRITERIA

- 5.1 General project eligibility criteria. MIF financing for a pilot program aimed at facilitating the reintegration of workers displaced from the public and private sectors is fully compatible with the MIF's general purposes, in particular Article I (d)(ii) of the Agreement Establishing the Fund which enables it to "bear certain

of the costs associated with investment reforms and an expanding private sector".

- 5.2 Criteria for eligibility for the Human Resources Facility. The proposal is fully compatible with the Human Resources Facility financing criteria, particularly with the provisions of Article III (3) for the training of workers who may be displaced as governments implement investment reforms, reduce public expenditures, restructure or privatize.

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

- 6.1 The program is fully consistent with the Bank's country program for Chile. Key focal points of the Bank's strategy are to: (1) consolidate the activities of the private sector, improving the climate for domestic and foreign investment; and, to (2) reduce extreme poverty, increase the efficiency of social services, and improve the productive capacity of low-income individuals, women, and microentrepreneurs. The proposed program contributes to these objectives in a number of ways. First, it seeks to improve the productivity of workers with outmoded skills, contributing to private sector growth and an improved investment climate. Second, by improving productivity, it seeks to improve the income-generating capacity of low-income individuals, including women. Third, the program supports microentrepreneurship as one option for the reemployment of displaced workers.

## VII. AVAILABILITY OF MIF RESOURCES

- 7.1 Type of financing. It is expected the project will be financed through a grant based on the following points: (i) On October 6, 1993, Chile was declared eligible for all sources of MIF financing by the Donors Committee; (ii) details on compliance by Chile with the eligibility criteria for obtaining donated funds at country level (Article III, section 5(b) of the MIF Agreement) are given in the country eligibility memorandum; and (iii) the project will contribute to an environment of social stability necessary for promoting private investment, as stipulated in Article III, section 5(a), by providing investors with greater capacity to retrain the workforce, particularly in areas where there is private sector demand.

### VIII. PROGRAM MONITORING

- 8.1 Mechanisms for monitoring and evaluation have been established to track the performance of the operating mechanisms during program execution and, when the program has ended, the extent to which the objectives for which it was designed have been attained.
- 8.2 For these purposes, the principals aspects which will be monitored will be: (i) executing entities and possible administrative problems that may arise during program execution; (ii) suitability of the bidding mechanisms adopted; (iii) method of payment and its effect on the RAs' performance and on the total cost of the program; (iv) response of the target population (initial interest in the program, remaining in it, and evaluation of results); (v) reintegration instruments proposed by the RAs, ways in which they were utilized, and the results obtained; (vi) the success of the program as an instrument for reintegration into the labor market (percentage of workers reemployed, job-searching time, job quality and stability, etc.), and (vii) target population as compared to actual beneficiaries (by age, sex, job category, etc.). Annex III contains a table showing the variables that will be monitored, the instruments to be used, and the hypotheses to be verified.
- 8.3 The executing agency will submit semiannual follow-up reports to the Bank based on the information compiled.

### IX. INTERMEDIATE AND EX POST EVALUATION

- 9.1 Six months after the first bid is completed, or when the scheduled program execution period has ended, whichever comes first, the Bank will carry out a mid-term program evaluation in accordance with its procedures. The PCU will place all the follow-up information it has compiled at the disposal of the Bank for purposes of this evaluation.
- 9.2 The proposed program is experimental in nature and may possibly include a second phase. The ex post evaluation of the program will be made at the end of the pilot program or the second stage, should one be carried out.

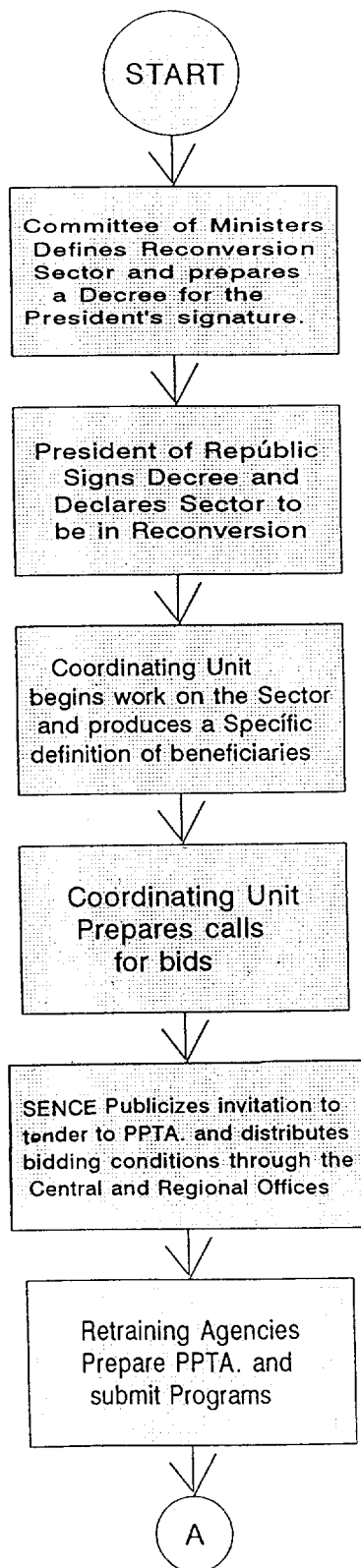
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(months)

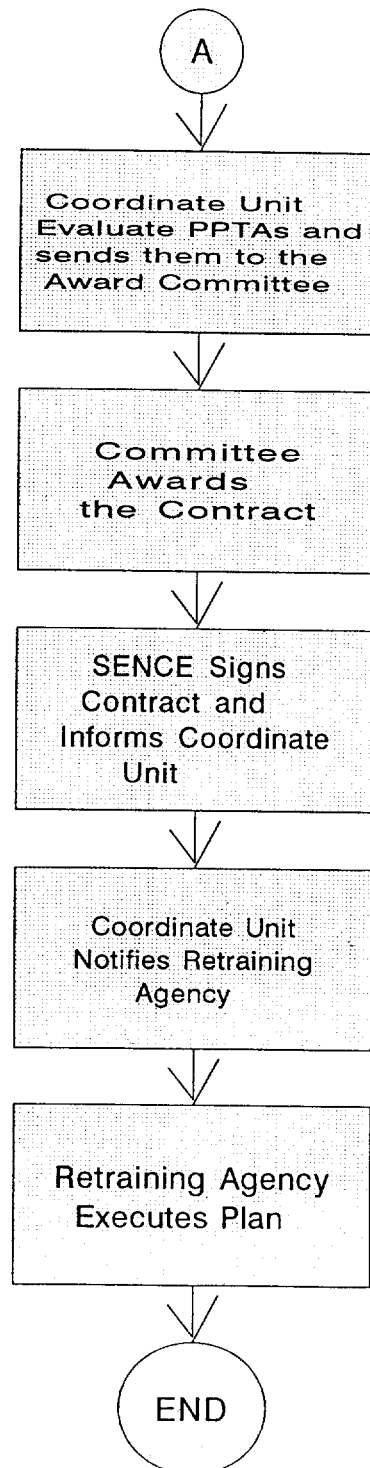
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																	X	X	X		X	X
		X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
			X										X									

to the national audit months in Chile

ANNEX 2

GENERAL DESIGN OF PROGRAM





**MONITORING AND EVALUATION  
PRINCIPAL PROGRAM VARIABLES**

<b>VARIABLE</b>	<b>MONITORING INSTRUMENT</b>	<b>PURPOSE</b>	<b>HYPOTHESIS TO BE VERIFIED</b>	<b>COMMENTS</b>
...cies (PCU and public ...ns)	<ul style="list-style-type: none"> <li>External evaluation of institution to be contracted by the MIF</li> </ul>	To identify operational and administrative problems encountered during program execution	The program can be executed on schedule with few problems, in a framework of harmonious relations among all those participating in the process	
...nisms	<ul style="list-style-type: none"> <li>External evaluation</li> </ul>	To verify the suitability of the mechanisms adopted	The bidding process is: (i) equitable; (ii) transparent; (iii) conducive to establishing a competitive and diversified supply of RAs, and (iv) safeguards the principles of managerial responsibility and effective use of public funds	It is fundamental that the p... obtain a minimum number... quality proposals in order to... choose among them
...nt	<ul style="list-style-type: none"> <li>To be identified in the consulting services planned for this purpose</li> </ul>	To verify the adequacy of the incentives contained in the type of payment as a mechanism for motivating the RAs	The type of payment selected maximizes fulfillment of program objectives under a reasonable cost alternative	
...on participation	<ul style="list-style-type: none"> <li>No. of workers enrolled</li> <li>No. of individual development plans agreed upon</li> <li>No. of workers completing the plan</li> <li>Beneficiaries' opinion of the program</li> </ul>	To verify that the program responds to the target population's interests and needs	The program will attract the target population, providing incentives for it to remain in the program until each worker is in a position to obtain a job with characteristics similar to those defined in his individual plan	Workers' opinions of the pr... design, and the opportunities... vides will be evaluated
...ments	<ul style="list-style-type: none"> <li>Surveys of beneficiaries</li> <li>Evaluation</li> </ul>	To verify that the program takes maximum advantage of each worker's productive potential, making efficient use of the "reentry instruments"	The instruments utilized by the RA are diversified, appropriate, and sufficient to meet the needs of the target population, and are designed in accordance with each worker's specific needs	
...t	<ul style="list-style-type: none"> <li>A representative sample of the target population will be taken and its behavior will be compared with that of the control group</li> </ul>	To verify that the program's employment goals are met	The program is an appropriate instrument to reintroduce displaced workers into the market	In order to ascertain the pro... impact after completion, con... with a control group will be... 12, and 18 months after its c...

TABLE	MONITORING INSTRUMENT	PURPOSE	HYPOTHESIS TO BE VERIFIED	COMMENTS
n vs. actual bene- n	<ul style="list-style-type: none"> <li>External evaluation utilizing internal program statistics</li> </ul>	To verify that the beneficiary population is the true target population	The program is able to respond equally to the needs of all of its target population regardless of age, sex, job category, etc.	The bidding conditions should allow for different treatments for different workers, for example, by offering different systems of payment to the RAs or by conducting separate bid calls, etc.
en benefitting from	<ul style="list-style-type: none"> <li>External evaluation using internal program statistics</li> </ul>	To verify that the program's design and instruments are adequate to ensure equitable participation of women among its beneficiaries	The program does not discriminate against female workers	
ding workers' pro- the RAs	<ul style="list-style-type: none"> <li>Surveys of the RAs</li> <li>Comparison of proposals with individual plans</li> <li>External evaluation</li> </ul>	<p>To avoid collecting unnecessary information</p> <p>To avoid confronting the RAs with unnecessary risks in their participation in the program</p>	The information supplied is sufficient for the RAs to prepare proposals	
e program to the and the RAs	<ul style="list-style-type: none"> <li>Surveys of participants</li> <li>Ex post evaluation</li> </ul>	<ul style="list-style-type: none"> <li>To ensure that the target population is sufficiently informed about the program, its mechanisms and anticipated results</li> <li>To ensure that RAs participate in the program, submitting sufficient numbers of diversified, good quality proposals</li> </ul>	<ul style="list-style-type: none"> <li>The workers receive timely, complete, and clear information</li> <li>A sufficient number of RAs will become aware of and interested in participating in the program</li> </ul>	
xecutors	<ul style="list-style-type: none"> <li>External evaluation</li> </ul>	<p>To ascertain the degree of ease/difficulty with which the selected RAs perform their contracts</p> <p>To identify negative incidents arising in the RA/PCU relationship</p>	The basic principles on which the program has been designed (decentralization, private sector, and payment for results) are realistic and appropriate	
ferent program	<ul style="list-style-type: none"> <li>PCU experience</li> <li>Surveys of the RAs</li> </ul>	To verify whether the execution timetable is realistic	The timetable programmed is tight but executable	

## LIST OF POTENTIAL RETRAINING AND PLACEMENT AGENCIES

In order to have available a list of potential retraining and placement agencies which could be useful in the program, SENCE has contacted various training and education institutions which belong to trade union groups.

The institutions which have expressed interest in participating as retraining and placement agencies have been invited to participate in explanatory seminars and workshops and a list has been prepared on the basis of the following criteria: quality of performance, links with the business sector, and institutional capacity.

The following is a list of agencies that could potentially participate in the program:

1. Sofofa
2. Corporación Educacional de la Asociación de Industriales Metalúrgicos
3. Instituto Nacional de Capacitación Profesional
4. Asociación Gremial de Supermercados de Chile (ASACH)
5. Instituto de Estudios Bancarios "Guillermo Subercaseaux"
6. Corporación de Desarrollo Santiago
7. Corporación Educacional de la Construcción
8. Corporación Educacional "La Araucana"
9. Universidad Católica Blas Cañas
10. Sociedad de Desarrollo Metropolitano
11. Escuela Industrial Simón Bolívar
12. Fundación DUOC
13. Corporación de Estudios de Capacitación y Empleo de la Cámara de Producción y el Comercio de Concepción.
14. Corporación Privada de Educación.
15. Cámara de Comercio de Santiago.
16. ITECOS Norte Ltda.
17. INCANOR
18. CATECNOR
19. SERCAP Ltda.
20. VISIÓN Ltda.
21. Capacitación Dos Mil Ltda.
22. Obra Kolping
23. SERCAP Profesionales
24. Trabajo y Cambio
25. CODESSER
26. Universidad de Santiago
27. CATEMU
28. ECATEMA
29. INCATEX Ltda.
30. Fundación "Cristo Vive"
31. Tecnología y Desarrollo

ANNEX 4

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- 32. CADES
- 33. Escuela Industrial Particular "Cerrillos"
- 34. Valles de Chile
- 35. ITESA
- 36. OTECH
- 37. FIDENTER
- 38. Sociedad C.E.A. "La Makina"
- 39. Educacional Puangue Ltda.
- 40. Centro Técnico INDURA
- 41. Desarrollo y Gestión de Empresas S.A. (DIGESA)
- 42. Gestión de la Creatividad "Empuje Ltda."
- 43. AITA

**COSTS**  
**(in US\$)**

	MIF	GOVERNMENT	TOTAL
<b>1. ADMINISTRATION</b>	0	336,968	336,968
PCU operating costs	0	316,968	316,968
Audits	0	20,000	20,000
<b>2. DIRECT COSTS</b>	1,735,590	765,006	2,500,597
Reemployment services	1,424,135	682,006	2,106,141
Monitoring and evaluation	268,956	46,000	314,956
Technical assistance	20,000	10,000	30,000
Publicity	22,500	27,000	49,500
<b>3. CONCURRENT COSTS</b>	0	24,170	24,170
Investments	0	24,170	24,170
<b>4. CONTINGENCIES</b>	105,307	76,559	181,866
Costs and others	105,307	76,559	181,866
<b>T O T A L</b>	<b>1,840,897</b>	<b>1,202,703</b>	<b>3,043,601</b>

PROPOSED RESOLUTION

CHILE. PILOT PROGRAM TO CONTRACT OUT RETRAINING AND PLACEMENT  
SERVICES TO THE PRIVATE SECTOR

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 with the Republic of Chile and to take such additional measures as may be pertinent for the execution of the plan of operations referred to in Document MIF/AT- with respect to a technical cooperation with the Ministry of Labor and Social Welfare for a program to contract out retraining and placement services to the private sector.

2. That up to the amount of US\$1,840,897 is authorized for the purpose of this resolution, chargeable to 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.