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MULTILATERAL INVESTMENT FUND

HONDURAS

**PROGRAM TO ESTABLISH A SPECIALIZED ALTERNATIVE LABOR
DISPUTE RESOLUTION SERVICE**

(HO-M1003)

DONORS MEMORANDUM

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INFORMATION AVAILABLE IN THE RE2/SC2 TECHNICAL FILES

PREPARATION:

Consultant's report

Report on the activities of the "Cumple y Gana" program

EXECUTION:

Project performance monitoring report

Terms of reference for the project coordinator

ABBREVIATIONS

ADR	Alternative dispute resolution
AWP	Annual work plan
CAFTA	Central American Free Trade Agreement
COHEP	Consejo Hondureño de la Empresa Privada [Honduran Private Enterprise Council]
PCR	Project completion report
PPMR	Project performance monitoring report
SMEs	Small and medium-sized enterprises
STSS	Ministry of Labor and Social Security

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I. EXECUTIVE SUMMARY

Executing agency:	Ministry of Labor and Social Security (STSS)	
Beneficiaries:	The Honduran private sector—especially small and medium-sized enterprises (SMEs), the STSS, Honduran workers, arbitrators and conciliators, and the justice sector.	
Financing:	MIF	US\$ 700,000
	Local counterpart:	US\$ 300,000
	Total:	US\$1,000,000
Objectives:	<p>The general objective of the program is to help generate an environment of trust, transparency, security, and efficiency for the resolution of individual labor disputes by designing and implementing a sustainable specialized labor conciliation and arbitration service under the Ministry of Labor and Social Security.</p> <p>Component I will help finance activities to design and implement a Conciliation and Arbitration Service under the STSS. Component II will help develop a training plan for conciliators and arbitrators. Component III will help design a dissemination and public awareness plan, and Component IV will support implementation of a monitoring and evaluation system.</p>	
Environmental and social review:	The Committee on Environment and Social Impact reviewed the project on 1 April 2005, and its recommendations were incorporated into paragraph 3.8. As recommended by the Committee, the project specifies the groups to be targeted by the dissemination and public awareness plan.	
Special contractual clauses:	<p>The STSS will have access to up to US\$25,000 from the MIF grant to hire the project coordinator in order to finalize the annual work plan. For all other disbursements, the STSS must submit, and the Bank approve:</p> <p>a. The annual work plan.</p>	

- b. Evidence that the project coordinator has been selected and hired.
- c. Approve the Operating Regulations.

**Coordination
with other
agencies:**

The United States Department of Labor is currently financing a regional project to strengthen labor systems in Central America: “Cumple y Gana” that is supporting labor ministries in a number of areas relating to effective enforcement of labor rights. The project complements this technical cooperation operation.¹

**Exceptions to
Bank policy:**

None.

II. BACKGROUND AND RATIONALE

- 2.1 **Judicial system.** In the past few years, the Government of Honduras has emphasized how important it is to have an efficient, predictable, and accessible justice system in order to promote economic growth and investment. The absence of an effective, efficient justice system is an obstacle to private sector development, as the ability to generate new investments is constrained by very high transaction costs. Although some major changes were made to the justice system in recent years, there is still much to be done.
- 2.2 The Bank has been supporting efforts in Honduras to strengthen the rule of law by coordinating the actions in a number of programs and projects. For example, the program to modernize the administration of justice (Stage I) (HO-0109), approved in 1996, supported the Supreme Court in preparing legal reforms, broadened the geographic coverage of the judicial branch, and implemented basic training and administration measures.
- 2.3 In 2002, the Bank approved Stage II of the program to support modernization of justice administration (HO-0210). The principal objective was to institutionalize and deepen the process to modernize the justice sector initiated under the first project. In addition, the second project extended the reform to other sector entities such as the Public Ministry and the investigative police of the Ministry of Security, entities whose roles changed when the new Code of Criminal Procedure entered into force.

¹ The objective of the “Cumple y Gana” project on strengthening labor rights is to achieve greater compliance with Central American labor laws and regulations. To that end, information and training activities will be carried out on national labor laws, and a website (www.Leylaboral.com) has been launched as a forum for interactive consultations.

- 2.4 Moreover, the Bank, through the Multilateral Investment Fund, approved an operation in Honduras in 1996, whose chief objective was to facilitate out-of-court resolution of commercial disputes, with a view to settling disputes more efficiently and at a lower cost. The project attained significant outcomes considering that 100% of the targets established in the Agreement were met despite a delay in executing the project because the Conciliation and Arbitration Law enacted through decree-law 161-2000 on 17 October 2000, only entered into force on 7 March 2001. Not only did this project promote the use of alternative dispute resolution (ADR) methods, but it also helped strengthen the private sector as the Center for Conciliation and Arbitration was designed and implemented in the two leading Chambers of Commerce and Industry in Honduras—Tegucigalpa and Cortés.
- 2.5 **Labor dispute resolution in Honduras** There has been some progress in the resolution of labor disputes in Honduras's judicial system. However, it has yet to become fully functional as it lacks an integrated system to resolve labor disputes effectively and expeditiously. At present, the Ministry of Labor and Social Security (STSS) handles administrative actions, and the labor courts handle judicial actions.
- 2.6 Honduras has 10 judges who specialize in labor issues, and 11 conciliators in the administrative body: seven at the Tegucigalpa office, two at the San Pedro Sula regional office, and two more at the Choluteca regional office, which precludes the dynamic and effective resolution of disputes. Statistics prepared in 2003 show that the conciliation services of the administrative body recorded a total of 8,202 individual disputes, 36% of which were settled. A breakdown of disputes by economic sector shows that the majority arise in the manufacturing industry, followed by community services and the commercial sector. With respect to judicial actions, 2,364 cases were entered, of which 51% were settled at a cost of 4,670 lempiras per case, equivalent to approximately US\$260. Each case requires on average 3.5 person-weeks. As for collective disputes, the STSS provides mediation services to the parties to the dispute through its Collective Labor Dispute Department, in order to broker satisfactory resolutions.
- 2.7 **Proposed project.** Through this program, the MIF will support the STSS, which is the agency responsible for labor conciliation and legal assistance for workers,² to generate an environment of trust, transparency, security, and efficiency for the resolution of individual labor disputes. A specialized service will be created under the Directorate General for Conciliation, Mediation,³ and Arbitration, in accordance

² Article 77 of the Labor Code states that: The Ministry of Labor and Social Security may, at any time, encourage use of the mediation, conciliation, and arbitration procedures described herein, when it is of the view that failure to resolve a dispute may compromise normal employer/worker relations or the normal performance of work. The provisions in this Article are without prejudice to the right of any individual or corporate body who holds a legitimate interest to bring an action before a judge of the labor court or, failing this, before a judge of a civil court.

³ The STSS considers conciliation and mediation to be synonymous.

with the new organizational structure established by the recently approved STSS Organic Law.

- 2.8 Furthermore, this project will help ensure compliance with the provisions of the Central American Free Trade Agreement (CAFTA) with the United States. In signing CAFTA, Honduras pledges to enforce compliance with national labor legislation, as well as the Core Agreements, which are part of Honduran legislation. Article 16.7 of the CAFTA chapter on Labor refers expressly to the need to establish alternative dispute resolution mechanisms to settle labor disputes. The project is also in line with the recommendations on labor-related issues contained in the “White Paper,”⁴ a document prepared by a working group of the vice ministers responsible for labor in the countries of Central America and the Dominican Republic, with Bank support.
- 2.9 What is more, at the Fifth National Business Meeting in March of 2005, the Honduran Private Enterprise Council (COHEP) presented a strategy paper for the country’s socioeconomic development in the medium and long term. It proposes to “encourage and enhance the use of alternative dispute resolution mechanisms as an option prior to bringing action under labor laws.” Accordingly, this project meets private sector needs for an effective and efficient labor dispute resolution system.
- 2.10 **The Bank’s country strategy.** The project is consistent with the Bank’s strategy for the sector in Honduras. It is well justified as it seeks to encourage the adoption of measures to promote an appropriate legal framework for private investment. The project is expected to have a significant indirect impact, increasing foreign investment in the country, because these legal requirements provide the right conditions to enhance business competitiveness and effective operations.
- 2.11 **The MIF strategy.** The successful execution of this project will have a positive impact on worker-employer relations. In effect, an **innovative**, permanent service will be created for businesses and workers, a key element for the successful implementation of CAFTA’s labor component. The obligations contained in CAFTA’s chapter on Labor, and the commitments for capacity-building at labor institutions are both a major challenge and a great opportunity for the countries. This experience and service model could be **replicated** in other countries in the Central American region that, like Honduras, not only must comply with the treaty but also face the challenge of leveraging the job and investment opportunities offered by trade liberalization. This initiative’s **additionality** lies in providing the private sector and labor in Honduras with an alternative for settling disputes that

⁴ The White Paper, entitled “The Labor Dimension in Central America and the Dominican Republic: Strengthening Compliance and Enhancing Capacity,” contains recommendations to **strengthen compliance with labor laws and improve the capacity of institutions involved with labor issues in key areas**. These areas include freedom of association; trade unions and collective bargaining; inspection and compliance; budget and personnel needs at labor ministries, labor courts and alternative dispute resolution mechanisms; gender and discrimination; child labor; and culture of compliance.

prevents uncertainty, delays, and heavy expenses for reaching a settlement. It also creates technical capacity that could be used by and extended to other areas of action that foster harmonious coexistence.

- 2.12 The proposed project has taken into account the lessons learned from projects the MIF has financed on labor and business mediation and arbitration. For labor, the MIF has implemented five national operations and one regional project of this type in Bolivia, Brazil, Dominican Republic, Uruguay, and Central America. One important lesson has been the need for active tripartite participation by workers, companies, and the government throughout execution. This ensures that the parties buy into the legitimacy of the processes. This element has been incorporated into the project design. The sociopolitical environment must also be taken into account and there must be an enabling environment for progress to be made in labor negotiations. In projects executed by the government, it is important to ensure that the current administration is committed to the operation and to identify measures to mitigate the risk posed by a change in government. In this project, the financing for the Directorate is ensured and will continue beyond the term of the current administration. The project could also benefit from the materials and experiences stemming from the Partners in Innovation program⁵ for alternative dispute resolution.

III. OBJECTIVES AND COMPONENTS

- 3.1 **Objectives and description.** The general objective of the program is to help generate an environment of trust, transparency, security, and efficiency for the resolution of labor disputes through conciliation and arbitration⁶ under the Ministry of Labor and Social Security (STSS). The specific objective is to establish a specialized conciliation and arbitration service within the STSS.
- 3.2 **Component I: Design and implementation of a Conciliation and Arbitration Service (MIF US\$138,000; STSS US\$118,800).** Financing will be provided under this component to design and implement a specialized Labor Conciliation and Arbitration Service in order to strengthen and promote these mechanism as forms of alternative labor dispute resolution. The service may be requested either by business people (an individual employer, a group of employers, a business organization), individual workers, or by unions (trade unions or informal worker associations). The main activities under the component include:

⁵ Partners in Innovation, document MIF/GN-95, approved in 2004.

⁶ Arbitration may be defined as a technique to resolve disputes where the parties to a dispute voluntarily put the resolution of such dispute in the hands of third parties, committing to abide by whatever decision such third parties may reach. Arbitration is an autonomous mechanism. The arbitral decision and award is enforceable. Conciliation, on the other hand, is an instrumental means whereby the parties decide to involve a third party who, contrary to an arbitration, may only suggest solutions to the dispute, not resolve.

- a. Design, structuring, and organization of the service, including: (i) developing an organizational model to strengthen management capacities and techniques at the STSS Directorate General for Conciliation, Mediation, and Arbitration; (ii) preparing an operating manual for the Arbitration and Conciliation Service, containing, among other things, the service's objectives, including generally elements related to planning, organization, management, and control; principles of arbitration and conciliation; basics of arbitration and conciliation proceedings; pleadings; and procedural instructions for both arbitration and conciliation; (iii) developing profiles for conciliators and arbitrators; (iv) designing an objective and transparent system to recruit qualified candidates; and (v) designing a case follow-up system.
 - b. Refurbishment of facilities, equipment, and information systems to administer the service. The service will require physical space for a coordination office, a work area for the technical and support staff, at least four hearing rooms (arbitration and conciliation), and the special facilities required for computer network capabilities and modern communications systems. The areas allocated by the STSS to the Conciliation and Arbitration Service will also need to be refurbished, so that the management office, the administrative, operational, and technical services, and the modular distribution of the hearing rooms is adequate, and they are properly furnished. Moreover, at least one mobile unit needs to be purchased so that the conciliators can travel to and provide the service in other areas of the country.⁷ This technical cooperation operation also provides for the procurement of at least 10 computers, one server, a data projector, three printers, two scanners, network connections, Internet access, three photocopiers, three facsimile machines, and telephones.
 - c. Development of a proposed code of ethics for arbitrators and conciliators. This code will contain the ethical principles governing the activities of conciliators, arbitrators, the Executive Committee, the Advisory Board, and all the assistants and persons involved in dispute resolution proceedings. The proposed code of ethics will be discussed among members of the Executive Committee and the Advisory Board to reach consensus before its promulgation.
- 3.3 The outcome of this component will be the creation of a service able to address both private-sector and worker needs to settle labor disputes in accordance with CAFTA provisions, and bring about a change in worker-employer relations.
- 3.4 These activities will be supported by the following specialists: (i) a specialist in programs for designing and organizing labor dispute resolution and managing ADR organizations; and (ii) an information technology specialist.

⁷ The mobile unit will be purchased and remodeled using counterpart funds.

3.5 **Component II: Design of a training program for conciliators and arbitrators (MIF US\$177,000; STSS US\$34,000).** This component will finance technical support to implement a training program in conciliation and arbitration techniques. Training will be provided to STSS employees, attorneys, judges, and business-sector and worker representatives. To implement this component, agreements will be signed with universities so as to guarantee continuing training after project completion, and the training will be free of charge for participants. For selecting participants, an open competition will be held, stipulating the application requirements. After the deadline passes, the Executive Committee will examine the applications and select participants. The main activities under this component include:

- a. Training in conciliation, conciliator ethics, and legal framework. This training will target several types of professionals involved in the field (attorneys, economists, social workers, etc.), identified through an initial screening process. During project execution, three 80-hour training courses will be offered for conciliators, with at least 20 students per course. The course will consist of a three-level modular program: (i) Introductory level covering the fundamentals of ADR, conceptual basis and advantages of ADR, and conciliation techniques and steps (10 hours); (ii) Intermediate level, focusing on the development of ADR management skills, case studies to practice the techniques, active listening, interests versus positions, and managing sessions, etc. (40 hours); and (iii) Advanced level focusing on the development of proper attitudes to improve a conciliator's performance in resolving labor disputes, conciliation records, drafting such records, and conciliator ethics (30 hours).
- b. Training for arbitrators, code of ethics for arbitrators, and legal framework. This training will target several types of professionals involved in the field (attorneys, economists, and persons in other branches of financial and commercial expertise, etc. qualified as candidate arbitrators for the service through an initial screening process). During project execution, three 80-hour training courses will be offered for arbitrators, with at least 20 students per course. The course will offer a three-level modular program: (i) Introductory level covering the fundamentals of ADR, conceptual basis and advantages of ADR, and arbitration techniques and procedures (10 hours); (ii) Intermediate level, focusing on the development of arbitration techniques and procedural skills (40 hours); and (iii) Advanced level focusing on arbitration decisions and awards, and ethical principles for arbitrators during the process (30 hours).
- c. Training for trainers. This training will be for arbitrators and conciliators trained in the first phase of the project who displayed fitting attitudes or skills for trainers in a screening, evaluation, and accreditation process to gauge their teaching experience and other parameters not yet determined. During project

execution, two training modules for trainers will be offered, one for conciliation, the other for arbitration, with 20 and 10 participants, respectively. It is important to have a group of trained trainers on the faculty of universities in Honduras. The course programs will present a number of training methods to build training capabilities as a means to ensure continuing implementation without further inputs from the project.

- d. Overseas traineeship program. Under this project, three traineeships will be carried out in order to develop new skills, enhancing the professional training in ADR services through direct contact with different labor situations. The idea is to expose the professionals to a variety of areas relating to this work, involving them in the day-to-day activities of a labor arbitration and conciliation center in another country, where the trainees will be able to put to use the theoretical and methodological tools acquired through the project's specific courses. This program will benefit professionals chosen from among the permanent staff of the service. The traineeships will be 15 days long.
- 3.6 This component aims to prepare high quality professional human resources to engage in alternative labor dispute resolution mechanisms in Honduras. The training will incorporate the best practices in the field, adapted to local needs. Sustainability will be built into the training process, generating local capacities to ensure its continuity into the future by training multipliers. Approximately 60 conciliators and 60 arbitrators will be trained, in addition to 20 conciliation and 10 arbitration trainers.
 - 3.7 To effectively implement this component, the following experts will be hired: a consultant with international expertise in ADR, to develop the training course program; an arbitration training consultant; a conciliation training consultant; and a consultant in ADR to train trainers. These consultants may be hired either directly or through a consulting firm specializing in ADR.
 - 3.8 **Component III: Dissemination and public awareness plan (MIF US\$110,000; STSS US\$93,000).** The purpose of this component is to communicate the scope and benefits of alternative labor dispute resolution methods and promote their use. It will also open a permanent dialogue with the private sector and worker organizations to coordinate actions in the framework of the project to give it strength and continuity. The following activities will be carried out: (a) develop a dissemination and public awareness plan to guide STSS dissemination activities for the following three years. The principal objective of such dissemination activities is to reach out to all sectors (employers and workers) involved in labor disputes, and to the general public; (b) organize workshops to publicize alternative labor dispute resolution methods, adapting the message to the different social actors addressed, differentiating between large companies, SMEs, judicial personnel, lawyers, and labor and business leaders; (c) develop and maintain a website providing information on the services offered by the Center; (d) design and produce

- promotional materials including informational brochures on the objectives and advantages of conciliation and arbitration, the organization and functioning of the service, the conditions under which one may resort to such services, and the procedural sequence; and (e) publish articles on best practices in labor dispute resolution. These materials will be used at the dissemination workshops.
- 3.9 This component seeks to communicate the benefits and advantages of using alternative methods to resolve labor disputes. The outcomes and successful experiences will be publicized to promote use of the service.
- 3.10 **Component IV: Monitoring and evaluation system (MIF US\$50,000; STSS US\$8,000).** This component will finance the designing of a monitoring and evaluation system for the service, providing management and impact indicators to measure the efficiency of the service's human and physical resources, case management, monitoring of processes, caseload, and case recurrence based on their classification. Case monitoring software will be developed so that data can be collected and interpreted easily and, most importantly, in a timely and transparent manner. Both quantitative and qualitative elements will be taken into account for the indicators used to evaluate structure, process, and outcomes.
- 3.11 Structural indicators measure project preparation, planning, and implementation data. They are based on quantitative variables and will be used to evaluate the project structure. The indicator values are obtained from requests for information about the service or from service evaluation forms: (a) **General knowledge about the conciliation and arbitration service:** number of requests for information about the service submitted by users through different access channels—in person, by telephone, through the website, etc. (regardless of whether or not they ultimately use the conciliation or arbitration services); (b) **Staff responsiveness:** parties will rate their satisfaction with the accessibility of the professional staff at the conciliation and arbitration service; (c) **Satisfaction with the business hours:** users will rate their satisfaction with the business hours of the conciliation and arbitration service; (d) **Evaluation of material resources:** users will rate their satisfaction with the infrastructure of the premises, as well as the availability of resources (equipment and information systems to administer the service, etc.); and (e) **User information:** this indicator will evaluate a user's knowledge about the conciliation and arbitration service at the time of filing a petition. This will provide information on the degree of public awareness about the service.
- 3.12 **Process indicators** will be used to evaluate the development phase of the process and the tasks accomplished. The data will be collected through forms and records providing information on the number of applications, category, type of dispute, and the type of intervention provided (conciliation or arbitration). The indicator values are obtained from the service request form: (a) **Caseload:** number of cases filed monthly, classified by type of service (arbitration or conciliation); and (b) **Dispute**

classification by category: these data are used to calculate the total percentage for each type of dispute.

- 3.13 Outcome indicators will be used to evaluate service quality and user satisfaction. The indicator values are obtained from the service evaluation forms, the case activity forms, and case monitoring. The outcomes are evaluated by the parties and by the conciliator or arbitrator on the case: (a) **Effective processes:** the number of cases that actually went to conciliation or arbitration; (b) **No conciliation possible:** number of cases filed where conciliation was impossible; (c) **Full agreement:** conciliation processes ended to the satisfaction of all the parties with a Statement of Full Agreement; (d) **Partial agreements:** conciliation processes ended to the partial satisfaction of the parties with a Statement of Partial Agreement; (e) **Conciliation agreement in arbitration proceedings:** number of conciliation agreements achieved through arbitration proceedings; (f) **Arbitral award:** number of arbitral awards recorded; (g) **Nonagreement:** mediation processes ended with no agreement; (h) **Pending actions:** number of processes started in a month but not ended the same month, and those brought as effective proceedings. When evaluating the data, consideration should be given to the impact of the mechanisms used to publicize the functions of the service, so as to measure the reach of the dissemination activities; (i) **Media impact:** determine what impact the media has had in making known the existence of the conciliation and arbitration service, assessing the level of public awareness within the peace culture advocated by the STSS; (j) **Need for the Service:** evaluate users' perceived need for such a Service; (k) **Effectiveness of consultations:** try to determine the proportion of inquiries that become effective applications for conciliation or arbitration; (l) **Effectiveness of the conciliation:** determine the proportion of requests for conciliation that end in an agreement; (m) **Effectiveness of the conciliatory process** (Not possible due to failure to appear): determine the proportion of applications for conciliation that do not end in agreement due to nonattendance by one of the parties; (n) **Effectiveness of the conciliatory process** (Nonagreement): determine the proportion of requests for conciliation heard, but ended in nonagreement; (o) **Effectiveness of the arbitration:** determine the proportion of requests for arbitration ended in an arbitral award; and (p) **Effectiveness of the arbitration process:** determine the proportion of arbitral tribunal requests ended in conciliation.
- 3.14 Execution of this component will ensure greater service effectiveness, set quality standards, determine the real demand for these services, and provide a basis for strategic decision-making concerning operation of the service.
- 3.15 To effectively implement this component, individual consultants or a consulting firm specializing in developing monitoring and evaluation systems will be hired.

IV. COST AND FINANCING

- 4.1 The program cost was estimated at US\$1 million, broken down as follows: US\$700,000 (70%) in nonreimbursable funding from the MIF Window I, and US\$300,000 (30%) in local counterpart contributions, with 50% of such amount in cash. The estimated budget is shown in the table below:

Budget line items (in US\$)	MIF	Local contribution	Total
Component I: Design and implementation of a Labor Conciliation and Arbitration Service	138,000	118,800	256,800
Component II: Training program for future conciliators and arbitrators	177,000	34,000	211,000
Component III: Dissemination and public awareness plan	110,000	93,000	203,000
Component IV: Monitoring and evaluation system	50,000	8,000	58,000
Project coordination	97,200	46,200	143,400
Monitoring and evaluation	50,000		50,000
Audit	30,000		30,000
Contingencies	47,800		47,800
SUBTOTAL			
Percentage (%)	70	30	100
TOTAL	700,000	300,000	1,000,000

- 4.2 **Sustainability.** The objectives of the program will be sustained, thus building capacity at the STSS Directorate General for Conciliation, Mediation, and Arbitration to offer quality services and products. Financial sustainability will essentially come from the STSS since resources will be allocated in its annual budget to the Directorate General for Conciliation, Mediation, and Arbitration. One year before program conclusion, the executing agency will hold a workshop with the Bank's Country Office in Honduras to develop a strategy for ensuring program sustainability.

V. EXECUTING AGENCY AND EXECUTION MECHANISM

- 5.1 **Executing agency.** The Ministry of Labor and Social Security (STSS) will be the project executing agency, and the Republic of Honduras will be the beneficiary. It will be accountable to the Bank for fulfillment of project objectives, and managing the MIF funding and the counterpart resources. The STSS is financially sustainable. Its estimated budget for 2005 is approximately US\$13.21 million, of which US\$3.9 million represent its actual budget—the remaining US\$9.3 million are transfers to other social welfare institutions. It should be noted that the STSS will

earmark US\$300,000 over three years as counterpart funding for this program, of which US\$150,000 will be in cash, as indicated in a letter from the Ministry. The STSS has an operating and administrative structure that centralizes the accounting and financial operations of the Ministry and the various donor-financed programs. The STSS is also the coexecuting agency for a Bank-financed secondary education and job training program (HO-0202) in the amount of US\$30.6 million, which is currently beginning the implementation phase.

- 5.2 **Execution mechanism.** The **project coordinating unit** will comprise: (i) a general coordinator, (ii) an assistant, and (iii) an accountant. The coordinator and the assistant will be assigned to the project on a full-time basis, and the accountant part-time. The project Operating Regulations contain the terms of reference for this personnel. The coordinating unit will be supported by a team of consultants hired with project funds to execute the activities under each program component.
- 5.3 At the start of the project, an **Executive Committee** will be established with STSS representatives, whose chief responsibility is the selection of the project coordinator, implementation of and compliance with the Operating Regulations, and development and fulfillment of execution in accordance with the annual work plans (AWP). Its duties include approving the AWP and amendments to the Operating Regulations, which are to be presented to the Bank for its no objection, and to negotiate agreements with public and private institutions that contribute to project sustainability.
- 5.4 An **Advisory Board** will also be created, comprising professionals in the matter, and specialists from a range of different fields and sectors (STSS, Supreme Court, Bar Association, labor unions, Chamber of Commerce, COHEP, and academia). The members to the Advisory Board will be appointed by the institution they represent, and their duty is to maintain confidence in and the transparency of the service, as well as provide feedback to the STSS in order to fine-tune the service. The STSS, through the project coordinator, will serve as Technical Secretary of the Advisory Board. The Board will hold at least quarterly meetings (four per year), plus any additional meetings, if required, for project execution. The Advisory Board may establish working groups or special technical committees to support its work, appointing specialists and technical experts as needed.
- 5.5 **Execution period.** The project will be executed in 36 months and disbursements will be made over 42 months. A revolving fund will be established with 10% of the MIF contribution, to be disbursed and administered through a separate bank account. The executing agency will submit semiannual financial balance sheets for the revolving fund to the Bank's Country Office in Honduras. Grant funds will be disbursed in accordance with Bank procedures.
- 5.6 **Procurement.** Goods and consulting services will be procured in accordance with the Bank's procurement policies and procedures (documents GN-2349-4 and

GN-2350-4). Annex IV contains the program procurement plan prepared by the executing agency. The executing agency will update the procurement plan as part of its semiannual reports. It is proposed that retroactive financing be provided for expenditures made using counterpart resources for up to US\$47,000, which the STSS is now using to remodel the facilities.

- 5.7 The executing agency will prepare and submit to the Bank within 90 days after the last disbursement for the project, the final financial statements relating to the MIF contribution and local counterpart funds. These financial statements will be audited by an independent firm of external auditors approved by the Bank.

VI. MONITORING AND EVALUATION

- 6.1 The Bank's Country Office in Honduras will be responsible for the supervision and control activities, and for monitoring compliance with the contractual clauses, processing disbursement requests, and receiving the audited financial statements. The STSS semiannual progress reports will be submitted to the Bank through the coordinating unit. They will be based on the Logical Framework objectives and indicators, and presented in a format acceptable to the Bank no later than 30 days after the end of each six-month period in the calendar year. The STSS will also prepare a final program report to be delivered to the Bank 60 days after the date of the last disbursement, which will serve as a frame of reference for preparing the project completion report.
- 6.2 The executing agency will provide the Country Office with copies of all the reports and documents prepared by the consultants hired to execute the project. This information will enable the Country Office to monitor the project during each six-month period, and will also support the disbursement requests.
- 6.3 Annual **audits** and one final audit of the financial statements will be conducted by an independent firm acceptable to the Bank. The cost of the audits will be covered with funds from the MIF contribution, in accordance with the established procedures.
- 6.4 The coordinating unit will arrange to have a project **monitoring system** based on the schedule of activities, the logical framework indicators, and the AWP. This system will be the main instrument for monitoring project execution progress, the attainment of objectives, and the impact achieved. At the end of program execution, a closing workshop will be organized with the participation of the STSS, Bank personnel, and representatives of the sectors involved, to evaluate the outcomes and propose actions to enhance project sustainability.
- 6.5 The **midterm evaluation** will be performed 18 months into program execution or once 50% of the resources have been disbursed, to ensure that the project is making

good progress. The **final evaluation** will be conducted three months after the last disbursement. The final evaluation will review: (i) progress in completing activities; (ii) compliance with the objectives and indicators described in the logical framework; and (iii) the executing agency's performance.

VII. BENEFITS AND RISKS

- 7.1 **Benefits.** The project will help improve the business climate in the country, increase private investment and legal certainty, and comply with CAFTA provisions. Chief among the benefits, the establishment of the service will: (a) increase decision-making capacity, by building labor dispute management capacity among the parties; (b) optimize the quality and speed of decisions, reducing the economic cost; (c) promote learning skills to resolve present and future disputes (preventive effect); (d) create conditions to reach agreements that are realistic and sustainable over time, helping to improve labor relations; (f) help transform the organizational culture through the educational component, leading to changes in individuals and groups within organizations; (g) improve relations between the parties to a dispute; and (h) help reduce litigation.
- 7.2 **Risks.** One potential risk is the resistance of companies and/or workers to using alternate dispute resolution mechanisms to resolve labor disputes. To mitigate this risk, public awareness and dissemination programs will help publicize the advantages of adopting alternative dispute resolution methods to improve labor relations. Another risk is program sustainability. Approval of the Organic Law will ensure long-term financial sustainability, since the service is part of the organizational structure of the STSS, ensuring resources are allocated annually through the STSS budget.

VIII. ENVIRONMENTAL AND SOCIAL REVIEW

- 8.1 The Committee on Environment and Social Impact reviewed and approved the project on 1 April 2005, and its recommendations were incorporated into paragraph 3.8 above. No direct environmental impact is anticipated given the nature of the program, but it will have indirect social impacts contributing to a better labor climate and swifter resolution of labor disputes.

**PROGRAM TO ESTABLISH A SPECIALIZED ALTERNATIVE LABOR DISPUTE RESOLUTION SERVICE
(HO-M1003)**

LOGICAL FRAMEWORK

Narrative summary of objectives	Indicators	Means of verification	Assumptions
Goal To help generate an environment of trust, transparency, security, and efficiency for the resolution of individual labor disputes.	Two to three years after project completion: <ul style="list-style-type: none"> There is a 20% increase in demand for labor mediation and arbitration services that is fully met by the STSS. 	Statistics produced by the STSS Directorate General for Conciliation, Mediation, and Arbitration. Ex post evaluation report on project compliance and outcomes by the executing unit and the IDB.	<ul style="list-style-type: none"> All political, economic, and labor union sectors continue to support the program. The Ministry of Labor and Social Security (STSS) maintains the budget of the Directorate General for Conciliation, Mediation, and Arbitration.
Purpose To establish a sustainable Center to provide alternative dispute resolution (ADR) services within the Ministry of Labor and Social Security of Honduras.	<ul style="list-style-type: none"> At the end of year two of the project, 70% of labor dispute resolution requests are handled adequately. At the end of the project, 100% of labor dispute resolution requests are handled adequately. At the end of the project, X (number of) SMEs benefit directly from the service. 	Final evaluation report Executing agency's final report Project completion report (PCR) Surveys on the perceived quality of the services	<ul style="list-style-type: none"> The STSS has the institutional capacity to administer the Center. Users are interested in using arbitration and conciliation services.
Component 1			
Design and implementation of a Conciliation and Arbitration Service.	<ul style="list-style-type: none"> The Labor Conciliation and Arbitration Service is operational and able to provide service in year two of project execution. The Conciliation and Arbitration Service premises are refurbished and properly equipped during the second half of the first year of project execution. 	Final evaluation Midterm evaluation On-site inspections of the Center's civil works and procurement of equipment and furnishings Inventory of goods	<ul style="list-style-type: none"> The private sector finances the refurbishment of the Conciliation and Arbitration Service premises. The Executive Committee of the service within the STSS is willing to adopt the appropriate methods and procedures for the Center to function effectively.

Narrative summary of objectives	Indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> The organizational, operational, ethical, and administrative structure of the Conciliation and Arbitration Service is in place in the first year of execution. 	Semiannual progress reports and annual work plan (AWP) Procurement plan report Project performance monitoring report (PPMR) Consultant reports Service operating manual	
Component 2 Training in ADR technical skills to provide an efficient, high-quality, specialized service.	<ul style="list-style-type: none"> 40 conciliators / mediators trained in all three levels by the end of year two. 60 conciliators / mediators trained in all three levels by the end of project execution. 40 arbitrators trained in all three levels by the end of year two. 60 arbitrators trained in all three levels by the end of project execution. 20 conciliation trainers trained by the end of the project. 10 arbitration trainers trained by the end of the project. Three Center staff members participate in the traineeship program in year two. 	Final evaluation Semiannual progress reports and AWP Procurement plan report PPMR Consultant reports Traineeship reports Training workshop enrollment and attendance records	<ul style="list-style-type: none"> A broad range of professionals are interested in ADR training. Universities are interested in backing the training program.

Narrative summary of objectives	Indicators	Means of verification	Assumptions
<p>Component 3</p> <p>Dissemination and public awareness plan on the advantages of using alternative labor dispute resolution methods.</p>	<ul style="list-style-type: none"> ▪ The services provided by the Center are promoted in at least three areas (Choluteca, San Pedro Sula, and Tegucigalpa). ▪ 25,000 enterprises informed about the Center through workshops and other outlets. ▪ 25,000 hits to the Web page seeking information about the service by the end of the program 	<p>Final evaluation</p> <p>Midterm evaluation</p> <p>Semiannual progress reports and AWP</p> <p>Procurement plan report</p> <p>PPMR</p> <p>Consultant contracts</p> <p>Consultant reports</p>	<ul style="list-style-type: none"> ▪ All the sectors continue to support the service.
<p>Component 4</p> <p>Monitoring and evaluation plan</p>	<ul style="list-style-type: none"> ▪ The electronic case control system designed, implemented, and operating satisfactorily in the first year of project execution. ▪ Case monitoring and evaluation indicators established in the first 20 months of project execution. ▪ Case monitoring indicators designed in the first 20 months of project execution. 	<p>Final evaluation</p> <p>Midterm evaluation</p> <p>Semiannual progress reports and AWP</p> <p>Procurement plan report</p> <p>PPMR</p> <p>Statistical reports</p> <p>Semiannual project report</p>	<ul style="list-style-type: none"> ▪ All the sectors continue to support the service.
<p>Activity 1.1</p> <p>Design, structuring, and organization of the Service.</p>	<ul style="list-style-type: none"> ▪ Conciliation and Arbitration Service operating manual (month 12). ▪ Rules of procedure for the service (month 9). ▪ Document with the professional profile for arbitrators and conciliators (month 6). 	<p>AWP and project budget</p> <p>Semiannual progress report</p> <p>Consultant reports</p>	<ul style="list-style-type: none"> ▪ There is institutional momentum to create the Conciliation and Arbitration Service.

Narrative summary of objectives	Indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> Document providing the arbitrator and conciliator selection criteria (month 6). 		
Activity 1.2 Infrastructure, hardware, and information systems to administer dispute resolution agreements.	<ul style="list-style-type: none"> Hardware plan (month 6). Hardware installation (month 12). 	AWP and project budget Semiannual progress report Consultant reports On-site inspections for physical verification	<ul style="list-style-type: none"> There are premises that meet the criteria and requirements for a Conciliation and Arbitration Service. The STSS Executive Committee is committed to adopting the methods and procedures.
Activity 1.3 Prepare a draft code of ethics for arbitrators and conciliators for discussion and dissemination.	<ul style="list-style-type: none"> The codes of ethics for arbitrators and for conciliators are drafted (month 12). 	AWP and project budget Semiannual progress report	<ul style="list-style-type: none"> There is consensus within the STSS.
Activity 2.1 Training in conciliation, conciliator ethics, and legal framework.	<ul style="list-style-type: none"> Three conciliation courses offered in years one, two, and three of project execution, under the auspices of the Tegucigalpa Chamber of Commerce and with the backing of a local university. One interagency cooperation agreement between the STSS, the Tegucigalpa Chamber of Commerce, and a local university signed in year one. 	AWP and project budget Course program and conciliation training curriculum Course enrollment and attendance records Evaluation reports of trained conciliators	<ul style="list-style-type: none"> Law professionals, members of the private sector and labor unions are interested in participating in the training process. Higher education institutions express an interest in backing the conciliation training courses.
Activity 2.2 Training for arbitrators, code of ethics for arbitrators, and legal framework.	<ul style="list-style-type: none"> Three arbitration courses offered in years one, two, and three of project execution, sponsored by the Chamber of Commerce and backed by a local university. One interagency cooperation agreement between the Tegucigalpa Chamber of 	AWP and project budget Course program and arbitration training curriculum Course enrollment and attendance records Evaluation reports of trained arbitrators	<ul style="list-style-type: none"> Law professionals, members of the private sector, and labor unions are interested in participating in the training process. Higher education institutions express an interest in backing arbitration training

Narrative summary of objectives	Indicators	Means of verification	Assumptions
	Commerce and a local university signed in year one.		courses.
Activity 2.3 Training for trainers focusing on training skills and training adapted to the local environment.	<ul style="list-style-type: none"> One course for conciliation trainers in year three of the project. One course for arbitration trainers in year three of the project. 	AWP and project budget Modular conciliation and arbitration training content Course enrollment and attendance records Evaluation reports of trained conciliators and arbitrators	<ul style="list-style-type: none"> Conciliators and arbitrators are interested in taking the specialization courses.
Activity 2.4 Traineeship program at a labor dispute resolution center in the region known for its good practices.	<ul style="list-style-type: none"> Plan and agenda for the visits established with the foreign center in year one. 	Participant evaluations by the Center Semiannual progress report	<ul style="list-style-type: none"> The service's staff are interested in this traineeship program.
Activity 3.1 Dissemination plan, including materials for distribution.	<ul style="list-style-type: none"> Dissemination and public awareness plan beginning in year one of project execution. 	AWP and project budget Consultant reports Physical verification Semiannual progress report	<ul style="list-style-type: none"> Potential ADR service users are interested as they perceive the benefits of using such a service.
Activity 3.2 Workshops for business people and their advisors, members of bar associations, judges, and union representatives.	<ul style="list-style-type: none"> 20 workshops offered in years two and three of project execution to publicize ADR mechanisms. 	Dissemination workshop enrollment and attendance records Semiannual progress report	<ul style="list-style-type: none"> Potential ADR service users are interested as they perceive the benefits of using such a service.
Activity 3.3 Develop a Web page for the Conciliation and Arbitration Service.	<ul style="list-style-type: none"> Web page designed and operational by month 12. 	Web page	<ul style="list-style-type: none"> Broadened internet access.

Narrative summary of objectives	Indicators	Means of verification	Assumptions
<p>Activity 3.4</p> <p>Design and produce promotional materials, including brochures and articles on labor dispute resolution.</p>	<ul style="list-style-type: none"> ▪ 1,000 brochures distributed among interested groups in the first two years of the program. ▪ At least two articles on labor dispute resolution published in month 24. 	<p>Brochures and articles</p> <p>Semiannual progress report</p>	<ul style="list-style-type: none"> ▪ There is demand for information about the service and about good practices.
<p>Activity 4.1</p> <p>Design and implement the electronic case management and monitoring system.</p>	<ul style="list-style-type: none"> ▪ Detailed case reports broken down by sector, including time frame and method of resolution by year two of project execution. 	<p>Statistical reports</p>	<ul style="list-style-type: none"> ▪ The STSS is interested in having clear statistics on the Center's operations.

Budget

Item	MIF US\$	Local contribution US\$	TOTAL US\$
Coordinating unit (total)	\$97,200	\$46,200	\$143,400
Staff	\$97,200	\$43,200	\$140,400
Program coordinator	\$97,200	\$43,200	\$140,400
Logistics		\$3,000	\$3,000
Communications		\$3,000	\$3,000
Component 1: Design and implementation of a Conciliation and Arbitration Service	\$138,000	\$118,800	\$256,800
1.1 Design, structuring, and organization of the service	\$40,000	\$20,000	\$60,000
1.2 Remodel premises assigned to the service		\$80,000	\$80,000
1.3 Equipment	\$98,000	\$38,800	\$136,800
Component 2: Training program for future conciliators and arbitrators	\$177,000	\$34,000	\$211,000
2.1 Design a training program for conciliators and arbitrators	\$35,000		\$35,000
2.2 Training in conciliation, conciliator ethics, and legal framework	\$48,000	\$8,000	\$56,000
2.3 Training in arbitration, arbitrator ethics, and legal framework	\$48,000	\$8,000	\$56,000
2.4 Training course for trainers	\$40,000	\$6,000	\$46,000
2.5 Overseas traineeship program	\$6,000	\$12,000	\$18,000
Component 3: Dissemination and public awareness plan	\$110,000	\$93,000	\$203,000
3.1 Prepare a dissemination and public awareness plan	\$50,000		\$50,000
3.2 Dissemination workshops	\$40,000	\$40,000	\$80,000
3.3 Develop a Conciliation and Arbitration Service Web page	\$20,000	\$20,000	\$40,000
3.4 Design and produce promotional materials		\$13,000	\$13,000
Component 4: Monitoring and evaluation plan	\$50,000	\$8,000	\$58,000
4.1 Expert consultant in the evaluation and monitoring of conciliation and arbitration services.	\$50,000	\$8,000	\$58,000
SUBTOTAL	\$572,200	\$300,000	\$872,200
Contingencies	\$47,800		\$47,800
Evaluations	\$50,000		\$50,000
Audits	\$30,000		\$30,000
TOTAL	\$700,000	\$300,000	\$1,000,000
Percentages	70%	30%	100%

**Programa para el Establecimiento de un Servicio Especializado de Métodos Alternos de
Resolución de Conflictos laborales
(H0-M1003)**

Plan de Adquisiciones: Servicios de Consultaría mayores a US\$ 50,000

N°	Descripción de actividades	Costo de las actividades 18 Meses			Métodos seleccionados	Revisión del Banco
		TOTAL	BANCO	LOCAL		
1	Coordinador Del Programa	54.000	54.000		QBS	Prior
2	Consultor para el diseño estructura y organización Del servicio	50.000	50.000		QBS	Prior
3	Firma consultora para Capacitación en técnicas de ADR	98.600	98.600		QBS	Prior
4	Firma consultora para la formulación de un plan de monitoreo y evaluación	50.000	50.000		QBS	Prior
	Total Consulting Services	252.600	252.600			
		Método de selección				
		QCBS: Quality- and Cost-Based Selection				
		QBS: Quality-Based Selection				
		FBS: Selection Under a Fixed Budget				
		LCS: Least Cost Selection				
		CQS: Selection Based on Consultants' Qualifications				
		SSS: Single-Source Selection				

**PROGRAM TO ESTABLISH A SPECIALIZED ALTERNATIVE LABOR DISPUTE RESOLUTION SERVICE
(HO-M1003)
RELATED PROJECTS IN HONDURAS**

A. Similar MIF projects

None.

B. Similar or related Bank projects

Project number/ approval date	Project title, executing agency, and amount	Date of signature and disbursement period in months	Amount disbursed	Comments
HO-0109	Modernization of the Administration of Justice (Stage I)	13 March 1996 80 months	US\$7.7 million 90%	Project execution is rated satisfactory since 80% of the final anticipated outputs have been attained with respect to the 14 performance indicators for the project's three main components. Chief among the achievements are approval of the Law on Constitutional Jurisdiction, the current domestic violence legislation, the Code for Children, and progress made to reorganize the management and administration of justice, in addition to a greater number of cases handled for low-income persons, construction of 68 new courthouses for justices of the peace and six courtrooms for oral proceedings.
1115/SF-HO (HO-0210) 20 November 2002	Modernization of the Administration of Justice (Stage II) Supreme Court US\$30 million, IDB loan	11 December 2002 60 months	6%	Although execution has been delayed, the program has a satisfactory rating with good prospects of attaining the expected outcomes. Program objectives include goals long sought by the executing agencies, the principal political actors, and national public opinion. The authorities and officials directly in charge of program execution renewed their ownership and commitment during the recent administration mission. The fact that the Supreme Court Chief Justice (who is also the Chairman of the CEP), and the country's Attorney General will remain in office notwithstanding the change in government in 2005 adds an element of continuity that justifies an optimistic prognosis.

C. Projects for the same sector or beneficiaries

Project number/ approval date	Project title, executing agency, and amount	Date of signature and disbursement period in months	Amount disbursed	Comments
ATN/MT-5453-HO 16 December 1996	Program to Strengthen Alternative Commercial Dispute Resolution Methods Chamber of Commerce and Industry of Cortés, and Chamber of Commerce and Industry of Tegucigalpa US\$497,000 MIF contribution	12 March 1997 24 months	100%	The project yielded significant results considering that 100% of the targets set in the agreement were fulfilled despite a delay in executing the project because the Conciliation and Arbitration Law enacted under decree-law 161-2000 on 17 October 2000, only entered into force on 7 March 2001. Not only did this project promote the use of alternative dispute resolution methods, but it also helped strengthen the private sector as the Center for Conciliation and Arbitration was designed and implemented in the two leading Chambers of Commerce and Industry in Honduras—Tegucigalpa and Cortés.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION MIF/DE-___/05

Honduras. Nonreimbursable Technical Cooperation ATN/___-___-___ for a Program to Establish
a Specialized Alternative Labor Dispute Resolution Service

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 Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Republic of Honduras, and to take such additional measures as may be pertinent for the execution of the project proposal contained in document MIF/AT-___ with respect to a technical cooperation for a program to establish a specialized alternative labor dispute resolution service.

2. That up to the amount of US\$700,000, or its equivalent in other convertible currencies, shall be 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.

(Adopted on ___ 200_)

LEG/OPR/RGII/IDBDOCS#583476
HO-M1003