



# Donors Committee

For consideration

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**To:** The Donors Committee  
**From:** The Secretary  
**Subject:** Evaluation of MIF projects: Human resources and labor market projects

**Inquiries to:** Mr. Bernardo Guillamon (extension 1583)

**Remarks:** This report is an integral part of the work program of the Office of Evaluation and Oversight (OVE) to evaluate Multilateral Investment Fund (MIF) activities, since the beginning of its operations in 1993, following the mandate of its Donors Committee. The work of OVE aims at developing a comprehensive image of the Bank activities in support of the private sector, and particularly of the MIF, as established in the document MIF/GN-78 of February 2002.

The evaluation was initiated in 2002, covering four thematic groups of projects: Alternative Dispute Resolution (GN-78-2), Microfinance (GN-78-3), and Capital Markets & Financial Reform (GN-78-4). During 2003, as established in the program approved by the Donors Committee (GN-78-1), the project groups to be evaluated include the rest of the MIF thematic areas of intervention: (i) Private Provision of Infrastructure Services; (ii) Human Resources Development (including skills standards and labor market reforms); (iii) Business Development Services (including quality standards and promotion of trade and investment); (iv) Venture Capital Development; (v) Environment and Eco-Efficiency; and (vi) Promotion of Competition and Consumer Protection.

The first two group evaluations for 2003 were completed in the first half of the year, while the other four are in process and are expected to be completed during the second half. Once these thematic group evaluations are finished, the results would be consolidated in an overall evaluation report, integrating the results of the evaluation for the 10 years of MIF operations.

**References:** MIF/GN-78(2/02), MIF/GN-78-1(11/02)



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*MIF/GN-78-8*

***MIF Evaluation – Human  
Resources and Labor Market  
Projects***

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## ACRONYMS

HRD:	Human Resource Development
HRF:	Human Resources Facility (of the Multilateral Investment Fund)
ISO:	International Standards Organization
LAC:	Latin American and the Caribbean
MIF:	Multilateral Investment Fund
OECD:	Organization for Economic Cooperation and Development

## PROLOGUE

This report of this Group of Projects is an integral part of the work program of the Office of Evaluation and Oversight (OVE) to evaluate Multilateral Investment Fund (MIF) activities, since the beginning of its operations in 1993, following the mandate of its Donors Committee. The work of OVE aims at developing a comprehensive image of the Bank activities in support of the private sector, and particularly of the MIF, as established in the document MIF/GN-78 of February 2002.

In order to proceed with the evaluation, a special methodological framework was developed by OVE to capture the specific characteristics of MIF interventions. Also an initial estimate of its entire project portfolio was done, identifying the main thematic project groups for which common reference points could be established and meaningful lessons could be drawn. The evaluation was initiated in 2002, covering four groups of projects: (i) Financial Reform, (ii) Capital Markets; (iii) Microfinance; and (iv) Alternative Dispute Resolution. These four groups represented 134 from 16 countries with a total approved value US\$159, 75 millions of MIF resources.

According to the detailed work program for 2003 included in the Progress Report of 2002 approved by the Donors Committee in (GN-78-1), during 2003 the project groups to be evaluated include the rest of the main MIF thematic areas of intervention: (i) private provision of infrastructure services; (ii) human resources development (including skills standards and labor market reforms); (iii) business development services (including quality standards and promotion of trade and investment); (iv) venture capital development; (v) environment and eco-efficiency; and (vi) promotion of competition and consumer protection. The first two groups have already the evaluation completed in the first half of the year, while the other four groups reports are in process and expecting to have them completed during the second semester of 2003.

At the end of 2003, once all the evaluation work is covered for the main thematic project groups, an overall evaluation report would be produced by OVE, integrating the results of the evaluation done for the 10 years of MIF operation, and addressing also issues relating to institutional processes and mechanisms.

## EXECUTIVE SUMMARY

**The decade leading up to Bank intervention and the ten years in which the Multilateral Investment Fund (MIF) has been operating, have been marked by economic globalization, trade liberalization, and free market policies.**

These changes had a dramatic impact on labor markets in Latin America and the Caribbean (LAC). As countries shifted from protected to open economies and the role of the public sector declined, many workers lost their jobs and the stability of labor contracts and quality of employment changed. Unemployment has grown in the region and continues to pose a serious challenge.

**Approaches to labor market policies and Human Resources Development (HRD) have evolved to keep pace with the changing global economic environment. An over-riding trend has been the move to make training more directly relevant to the demands of the productive sector, thus increasing the employability of participants and the productivity of the workforce as a whole.**

Key elements pursued to this end, spearheaded in most cases by OECD countries, have included a move toward greater private-public partnerships to ensure greater demand-orientation, increased competition within training markets, improvements in labor intermediation services, and the move toward defining basic competencies and skill standards against which workers can be certified.

**Most of the challenges confronted by the projects relate to the fact that MIF was working within a context of long-standing practices contrary to the new models being introduced particular challenges such as the dominance of the public training institutes, the limited involvement of the private sector, the lack of sufficient demand-orientation and integration with job placement, and the historical weakness of the Ministries of Labor in many countries.**

Implementing innovative projects requires an institutional framework provide by the public sector and significant financial and other resources from the private sector in order to develop effective and sustainable programs. Also, the predominance of an informal sector and micro, small, and medium enterprises in LAC play a key role in the way human resources development is implemented.

**The Bank Group have had a coherent strategy to approach the development of human resources, but the scope of MIF intervention in this area has been greater than that of the Bank.**

Only 16 Bank loans directly addressed labor market issues from 1990-2002 and almost half of these were approved after 1999. These loans represent a very small portion of Bank operations. The MIF has thus taken a lead in terms of testing new ideas in HRD throughout the region. MIF has financed 75 projects in this group, totaling approximately US\$154 million in MIF investment, representing about 20 percent of the whole portfolio.

The MIF and Bank have had similar strategy objectives related to improving the effectiveness of human resources development efforts in the region, addressing the trends and challenges of the global context, with a particular emphasis on increasing worker productivity and enterprise competitiveness, but MIF and Bank projects have been complementary rather than duplicative since they work with very different instruments.

The strategy articulated by the MIF matched the trends emerging in the global context in many ways. The strategic focus on increasing private participation, reforming training systems to be more demand-oriented and linked to job placement, the introduction of skill standards, and attention to issues of labor relations all built on worldwide efforts to make HRD more effective and more responsive to the needs of the productive sector. Given the global lessons on difficulty in achieving impact through training programs, the MIF strategy included training with a cautionary note and emphasis on reform.

### **MIF has contributed to furthering labor market modernization in the region.**

Overall, the evaluation confirmed that the MIF can be an effective tool contributing to human resources development, particularly when pilot activities are targeted appropriately and the core strategy of testing innovative approaches is adhered to. Replication beyond the MIF grant of innovations from about half the projects is one concrete demonstration of the positive impact the MIF had with this group of projects.

### **Labor market modernization and human resources development continue to be important areas for investment and reform in LAC.**

The MIF role in piloting remains essential since the reforms and modernization needed in labor market programs are still highly innovative for much of the region. As the IDB also increases its involvement in this area, the MIF provides an important tool to complement Bank intervention, pilot new approaches, and enhance the private sector orientation of labor market policies and projects.

### **Objectives and designs grounded in local realities, ownership, and institutional support were among the several factors that influenced success of projects across the various evaluation dimensions.**

The appropriateness of design for the specific country and sector context was one key factor. MIF was implementing highly innovative programs and often took the lead in project design, not always ensuring adequate ownership, understanding, and commitment from the executing agencies, who were usually eager to take on new efforts but were not always prepared to do so. The institutional context in a broad sense is important for the types of innovations being introduced. Another factor influencing project success is whether objectives and activities were realistic in scope given local realities and the time frame of projects.

### **The intent of the HRD projects met a relevant need for reform and one that continues to exist today.**

The core needs identified in the MIF's HRD strategy continue to be relevant, although the specific context has evolved in each country, as countries have made varying levels of progress

over the last 10 years. Challenges encountered by the projects in this area included building and sustaining sufficient market demand to maintain high levels of relevance throughout the project.

**The role of risk in innovation was not explicitly stated in the Donors Memorandums.**

While **effectiveness** varied among projects, the HRD group of projects as a whole has produced results ranging from growth of skill standards and certification programs, advances in approaches to managing labor relations, improved quality of training in tourism across much of the Caribbean, and several examples of effective demand-based training and incentive schemes for employer investment in training that provide models for improving training systems and modernizing labor market policies. In a few instances, MIF pilots provided input into larger reform efforts currently underway. A factor that influenced project effectiveness was the level of risk involved and the appropriate mitigation of those risks. Key risks were often identified in project documents, but downplayed in terms of the difficulty of overcoming those risks. As innovative projects, risk is an inherent feature and a certain failure rate should be expected from risky projects.

**The innovative nature of the projects requires longer execution periods than anticipated to achieve project objectives.**

One of the key problems faced by this group of projects was related to the execution period: projects on average were extended 14 months over the original execution period. Seven months of execution time was used on average in the process of achieving eligibility for first disbursement, following project signature. Other problems in efficiency were related to difficulties with administrative procedures, and in a few cases to inefficient use of resources for the results obtained.

In each area of intervention, MIF HRD projects introduced innovations. In the area of training, the introduction of demand-oriented training and building of a competitive training market were innovative components of many training projects. The projects that aimed at comprehensive reform of training systems and modernization of labor market policies and programs were also quite innovative. In certain specific areas, such as skills standards, the MIF made an important contribution by consistently supporting an innovative concept thus advancing its adoption and allowing for a base of experience to be developed in the region. However, many experienced difficulties in disseminating those innovations and leading to mainstream concepts adopted by others.

**Financial sustainability has been difficult to achieve for the MIF HRD projects.**

The evidence reveals that projects did select executing agencies that for the most part had experience relevant to the project and that maintained high levels of commitment and dedicated resources, but that the agencies were not always able to institutionalize the projects and most importantly to secure means of financial sustainability. As compared to the low financial sustainability, 85% of case studies had high viability in terms of institutional capacity and were rated highly in terms of having adequate personnel to support the project. The MIF did make significant strides in HRD projects by insisting on high levels of counterpart funding and instituting cost recovery mechanisms as a means of working toward sustainability. These were

difficult to implement fully, in part because more time was needed than anticipated for the private marketplace to respond to signals indicating favorable returns on investments for the type of interventions promoted by the MIF. A characteristic common to sustainable projects was strong commitment from beneficiaries present from the beginning of the project and integration of the project into the executing agency, which committed its own resources during project execution and was able to continue the project fluidly upon completion.

**More is needed to enhance additionality during the project and increase knowledge-sharing among projects and for the MIF.**

MIF HRD projects had relatively high additionality in the design of projects, bringing considerable technical expertise and knowledge of international best practices to the design process. For this group of projects, the MIF undertook efforts to facilitate cross-learning, including contracting independent studies to review four categories of projects and hosting several seminars that brought projects together.

**HRD projects were very proactive in terms of evaluability during project design, but the execution of the evaluations scheduled was not always carried out.**

These projects tended to anticipate the need for monitoring and impact evaluations. But the evaluations were done to a lesser extent than anticipated in the project design. Among the case studies, most projects did have intermediate evaluations, but few had impact evaluations, despite the fact that about half the projects did call for impact evaluations and allocated resources for that purpose. This reflects in part a lack of understanding on the part of executing agencies and Country Office staff of the importance of evaluation for the MIF and this group of projects in particular.

**Overall, the evaluation found that labor market development is an area that continues to merit attention by the Bank Group, and that the MIF is in a unique position to advance work in this area by acting as a laboratory testing policies and new approaches.**

**Areas of opportunities for the MIF HRD programming.**

- **Utilize MIF as a Laboratory** – Particularly given the level of uncertainty regarding effectiveness of labor market interventions, and the critical importance of labor issues for the region, MIF pilot projects should more systematically serve to test assumptions and build evidence for what works in the LAC context.
- **Increased attention to level of readiness** – The MIF was attempting to bring LAC to the cutting edge of policies in HRD. Countries or sectors were not always ready for these changes. The context has evolved, countries seem more prepared to apply these policies, but adequate institutional analysis is needed to ensure countries are ready and committed to applying innovations.
- **Strengthen partnerships to leverage MIF intervention** – Given the distinct instruments of the Bank and MIF, the two can work together effectively to maximize impact in the region. The evaluation found that projects were most successful when designed as part of

a comprehensive strategy, and MIF piloted initiatives that provided lessons learned that were then taken on by the Bank in larger operations.

- **Greater Strategy Focus** – The core strategy of the HRF did not change much over time and was consistent with market needs, but several projects deviated from this strategy. More careful criteria for determining if a project fits the strategy would help enhance project performance and overall impact of the MIF intervention in this area.
- **Focus on Project Characteristics of Effective Projects** – The evaluation reveals several characteristics as common to project effectiveness. For example, projects should have strong local ownership from the time of design, commitment from executing agencies and/or key stakeholders that integrate projects into their activities, and clearly articulated market demand.
- **Focus on Sustainability from Time of Design** – Potential for project sustainability must be apparent from the time of design. Financial projections should be prepared. Pilots should be designed in such a way as to begin building sustainability and not providing excessive subsidies.
- **Disseminate innovation** – The MIF contribution in bringing innovation to the region can be further leveraged with better dissemination of innovative ideas and project results, to facilitate a demonstration effect and bring innovations into the mainstream.
- **Enhance monitoring and evaluation** – Learning and knowledge management are fundamental to the success of pilot efforts. Sufficient resources need to be dedicated to evaluation as well as technical supervision of these projects. The technical nature and innovative characteristics of the HRD projects require technical expertise to facilitate appropriate flexibility and learning during project execution.

## I. ANALYSIS OF THE EVOLUTION OF THE CONTEXT OF LABOR MARKETS AND HUMAN RESOURCES DEVELOPMENT

1.1 The objective of this chapter is to provide a brief analysis of the elements that define the context of labor market and human resources development policies during the period of MIF interventions. These elements provide the basis for assessing the effectiveness of the Fund's human resources development programs and strategy. It does not aim, therefore, to provide an exhaustive labor market analysis, or enter into the debate of whether the rather disappointing results obtained by the reforms of the 1980s and 1990s are due to incomplete implementation or fault with the model itself (see Annex I for more detailed analysis).

### A. Economic and Labor Market Trends

#### 1. Globalization and the Emergence of new Business Models

1.2 **From a historical perspective, it was not accidental that the creation of the MIF, with its focus on private sector development and strengthening, occurred during a period of major economic transformations such as those observed during the late 1980s and early 1990s.** During this period, the countries of Latin America and the Caribbean (LAC) were implementing major economic reforms that included the liberalization of financial markets, removal of trade barriers, deregulation, tax reforms and privatization. If on the one hand these changes aimed at strengthening private markets, they also exposed businesses to levels of competitive pressure unseen in a region whose markets had been historically highly protected.

1.3 **The process of globalization impacted all sectors of the economy, including labor markets.** As trade barriers came down, and communications technology advanced, the ease and speed with which products and people could move across borders increased, leading to the integration of markets and the emergence of the so-called knowledge economy.

1.4 **In LAC, the shift from protectionism to free-markets and globalization resulted in significant turmoil for the labor market. The principles governing labor relations shifted to one that favored flexibility on the part of employers, resulting in less job security and more short term contracts.** Job stability and job quality declined, while unemployment and underemployment rose. As the availability of formal sector jobs fell, the move to informal sector employment grew. Real wages deteriorated and poverty and inequality increased. The strength and role of labor unions also underwent transformation. Furthermore, with economic changes, new sectors emerged while others declined, often requiring different skill-sets from workers.

1.5 **The changes in the LAC labor market reflect global trends in the marketplace as new business models emerged along with economic globalization.** Companies were now operating in a global marketplace where competition was heightened. Within this changing environment companies focused increasingly on enhancing productivity to

remain competitive. This led to new approaches to production and business models, as well as new ways of looking at workforce skill requirements. In the manufacturing sector, for instance, “lean production,” became the norm, calling for teams of multi-skilled workers who rotated jobs and had greater responsibility for managing the production process.<sup>1</sup>

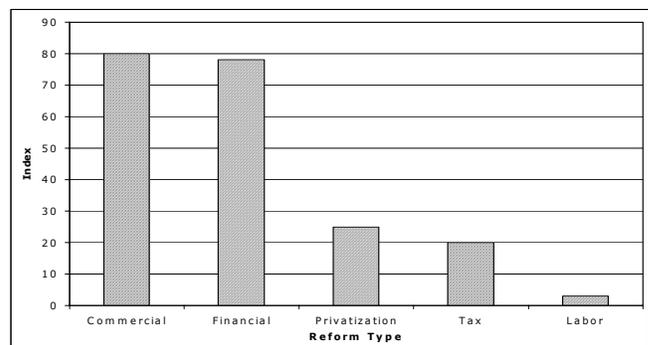
- 1.6 **Thus, a new focus on the role of the worker in enhancing productivity and the push for workers to be adaptable and to multi-task resounded across the economy.** This was complemented by the rising importance of innovation and knowledge management in driving economic growth. These trends led to a new emphasis on the basic skills or core competencies that every worker needs, such as workplace literacy, problem-solving, communication skills, and numeracy, among others.

## 2. Economic Liberalization and Structural Adjustment

- 1.7 **These economic trends were spurred by the emphasis placed on economic liberalization and reduced government intervention.** Such policies were pursued in almost all countries, but given the different starting points of their economies, implementation varied substantially between rich and poor countries. Up until the 1980s, most developing regions had pursued an economic policy dominated by import substitution industrialization characterized by protection of domestic industries against imports and dominance of the public sector. Against that backdrop, an aggressive set of reforms was introduced. These structural adjustment programs included a range of policies aimed at macroeconomic stabilization and economic integration, with emphasis on commercial and financial liberalization.

- 1.8 **Reform of labor laws, aimed at enhancing flexibility and labor mobility were part of the reforms sought in the adjustment package, but as Graphic 1.1 clearly shows, they were not implemented as widely as other reforms in Latin America and the Caribbean.** In fact, only six countries in the region undertook significant labor law reforms from the mid-1980s until 1999.<sup>2</sup> These reforms involved reducing the cost of lay-offs and facilitating temporary contracts to increase labor mobility within the formal sector.

Graphic 1.1: The advance of first-generation reforms in Latin America, 1985-1999



Source: Lora (2001)<sup>1</sup>

<sup>1</sup> Babson, Steve. *Lean Work: Empowerment and Exploitation in the Global Auto Industry*. Wayne State University Press, 1995: 1.

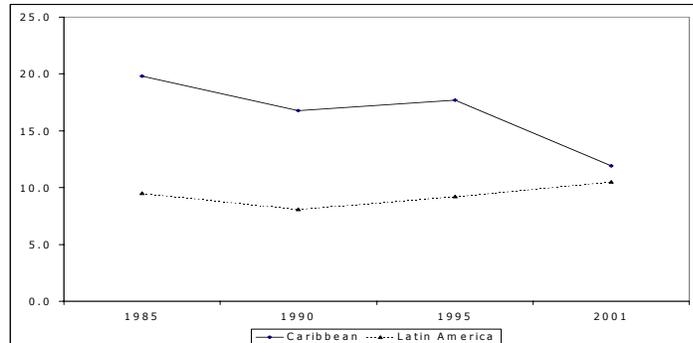
<sup>2</sup> IPES Draft, chp 5p7

### 3. Employment

1.9 **Despite the intention of the reform effort, economic growth and job creation were not achieved as expected.** In LAC, the 1990s were characterized by limited job growth: even though the region saw some improvement in average GDP growth during the 1990s relative to the 1980s (3.9% vs. 1.1%), employment growth actually declined during the 1990s in comparison to the previous decade, from 2.9% to 2.1% per year.<sup>3</sup>

1.10 **The overall trend in the 1990s has been one of increased unemployment in Latin America** (Graphic 1.2) and even though unemployment has declined in the Caribbean, it remains higher than the rest of the region. Data on unemployment in the region must be viewed cautiously, since the high rates of informality make measurement difficult and skew the picture in terms of job quality and rates of underemployment.

**Graphic 1.2: Urban Unemployment Trends in Latin America and the Caribbean 1985-2001**



Source: ILO, 2002<sup>1</sup>

1.11 **Unemployment did not disproportionately affect women and youth.** Although youth and female unemployment rates are generally higher than rates for adults and the population as a whole, it must be noted that in Latin America: a) the ratio of unemployed youth to adults fell over the decade (from 2.07 in the early 1990s to 1.87 by the end of the 1990s);<sup>4</sup> and b) the gap between unemployment of women and the lower unemployment rate of men decreased slightly during the nineties, from an average of 1.28 to 1.27.<sup>5</sup>

### 4. Wages and poverty

1.12 **During the 1980s and 1990s real wages declined in every sector in Latin America, and by 2000 had still not recovered to 1980 levels.** By 1989, average income in the informal sector fell to 58% of the 1980 level, small enterprise and public sector wages fell to 70% of 1980 levels; even in medium and large enterprises there was a small decline to 93% of 1980 levels.<sup>6</sup> In 2001 the average real wage for LAC was 75.9% of the 1980 level.<sup>7</sup>

1.13 **Jobs paying less than US\$1 per hour (roughly equivalent to the UN family poverty threshold) range from 40% to 70% of all jobs in LAC countries, and while these jobs**

<sup>3</sup> Saavedra, Jaime. "Labor Markets in the 1990s" Chapter 9 in *After the Washington Consensus: Restarting Growth and Reform in Latin America*. Washington DC: Institute for International Economics, 2003, p. 217.

<sup>4</sup> IPES Draft chp 1, table 3.1.

<sup>5</sup> IPES Draft Chp 1, table 3.1.

<sup>6</sup> Mazza 1994, 14.

<sup>7</sup> ILO Panorama Laboral 2002, Cuadro 10-A.

are disproportionately held by economically or socially excluded groups – women, young workers (aged 15 to 29), indigenous and black workers, the lesser schooled, rural, and small-firm workers – other groups are also well represented in the ranks of the low-paid.

- 1.14 **As real wages declined and unemployment rose, poverty increased in LAC over this time period.** The percent of the population living on less than US\$1/day increased from 15.3% (63.7 million people) to 15.6% (78.2 million people).<sup>8</sup>

## 5. Economic Transformation and Skills Mismatch

- 1.15 **The reforms of the 1980s and 1990s brought about shifts in the dynamism and growth of differing sectors of the economy.** New sectors emerged or gained importance often requiring workers with different skill sets than those of the existing workforce, leading to a skills mismatch that can lead to inadequate labor supply to meet actual demand, even in periods of unemployment.
- 1.16 **The problem of the skills mismatch must be viewed in light of the changing sectoral emphasis within economies as well as the changing expectations of worker competencies.** Over the last 15 years, there has been a dramatic change in the composition of global trade. On the one hand, there has been a reduction in the participation of agricultural products, non-food primary materials, and combustibles, as a result of the limited dynamism in growth of demand for these products and falling prices. At the same time, trade in products on the category of machines and equipment, especially electronic products and products related to information technology and communications have expanded.<sup>9</sup> Higher-wage industrialized countries have become more service-oriented economies, and, with growth in information technology, specifically more knowledge-based economies. This transition implied significant changes in the type of skills demanded within the “new economy.” In LAC, the transition from inward-oriented state-led policies, to more open and deregulated economies, has led in various countries to the development of new areas of specialization in production and insertion in world markets of goods and services.<sup>10</sup> Specialization in exports has been largely in line with the region’s main areas of competitive advantage – cheap labor and abundant natural resources.
- 1.17 **Focus on capital-intensive production of natural resources, the rise in assembly of good or maquilas form of production, the increase on export of services, and the diversification of products in the international supply chain have been the major sectorial trends have been identified in the region during the 1990s.** The focus on capital-intensive production of natural resources was pursued especially in Chile, Argentina, and Brazil, which increased agro-industry in areas such as vegetable oils, pulp and paper, iron and steel, and fish products. The rise in assembly of goods, primarily clothing, equipment, and computers predominated in Mexico and the smaller countries of

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<sup>8</sup> World Bank, *World Development Report 2001*.

<sup>9</sup>CEPAL “Panorama de inserción internacional de América Latina y el Caribe, Edición 2001-2002, p12.

<sup>10</sup> Jorge Katz and Giovanni Stumpo, “Regímenes competitivos sectoriales, productividad y competitividad internacional” Santiago, Chile: CEPAL, Julio 2001, p 7.

Central America and the Caribbean. Some of these have been in the form of maquilas and other assemblers of intermediate imports. These are labor-intensive industries that depend on low-cost labor, with workers receiving about 10% of the wage paid for similar work in developed countries.<sup>11</sup> In Mexico alone, the maquila industry generated 1 million new jobs during the 1990s.<sup>12</sup> Export of services, particularly in tourism but also in financial and transportation services, represents the third major trend. This was particularly dominant in the Caribbean and Panama<sup>13</sup> but also affected many parts of the region, mirroring a worldwide trend in the rise of travel and tourism employment that is expected to reach 328 million people by 2010.<sup>14, 15</sup> The fourth trend, which is a broader version of the first, is the diversification of products in the international supply chain and the diversification of export markets. This has been pursued throughout South America to varying degrees. Thus while the Andean countries focused exports on a relatively limited group of products, the Southern Cone increased its diversity, notwithstanding the predominant role of copper in Chile.<sup>16</sup>

- 1.18 **The increasing role of the informal sector has been another important aspect of the economic transformation in Latin America over the last two decades.**<sup>17</sup> According to one measure, the informal sector grew from 25% of the labor force in 1980 to 31% in 1989.<sup>18</sup> According to the ILO, the rate of informality in LAC economies was around 50% in 2000. The growth of the informal sector in part explains the relatively small increases in unemployment during the 1980s, as workers lost more stable jobs and moved into the informal market. Underemployment, on the other hand, grew during the 1980s, to an estimated 37% in 1987.<sup>19</sup>

## 6. Labor Standards and Labor Relations

- 1.19 **Labor standards refer to the rules that govern working conditions and industrial relations.**<sup>20</sup> Five core labor standards are defined by the ILO: (i) the prohibition of slavery and compulsory labor; (ii) elimination of discrimination; (iii) prohibition of exploitative child labor; (iv) freedom of association; and (v) right to collective bargaining.<sup>21</sup> The interpretation and enforcement of labor standards tend to vary with economic and labor market trends. Attention to labor standards issues also varies

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<sup>11</sup> Katz and Stumpo 2001, p17

<sup>12</sup> Katz and Stumpo 2001, p16

<sup>13</sup> CEPAL “Panorama de inserción internacional de América Latina y el Caribe, Edición 2001-2002

<sup>14</sup> Global Travel and Tourism Partnership. Web page accessed April 2003. [www.gttp.org](http://www.gttp.org).

<sup>15</sup> Between 1990 and 2000, demand for travel and tourism grew about 45%, and the portion of global GDP represented by travel and tourism grew by 35%. World Travel and Tourism Council. The 2003 Travel & Tourism Economic Research.

<sup>16</sup> CEPAL “Panorama de inserción internacional de América Latina y el Caribe, Edición 2001-2002

<sup>17</sup> Definitions of informality vary: the ILO defines the informal sector as the percentage of workers in small firms or who are self-employed. Others refer to the percentage of workers employed in firms that do not pay taxes.

<sup>18</sup> Mazza 1994, 5, citing PREALC data.

<sup>19</sup> Mazza 1994, 12.

<sup>20</sup> Toke Aidt and Zafiris Tzannatos. Unions and Collective Bargaining: Economic Effects in a Global Environment. Washington, DC: The World Bank, 2002.

<sup>21</sup> Aidt and Tzannatos, p2.

substantially across countries, particularly those related to freedom of association and collective bargaining. A 1996 OECD study confirmed that there are significant differences in the way these two standards are “guaranteed by law and practice” across developing and industrialized countries.<sup>22</sup> Labor standards is increasingly become a focus of attention of the international development community and civil society.

- 1.20 **Within the overall framework of increased global competition and emphasis on productivity and flexibility, the role of organized labor underwent significant changes. The numerical strength of unions declined on a global scale.** In several Latin American countries trade union density dropped from 1980 to 1990, falling, for example, from almost 50% to less than 30% in Argentina, from about 55% to 30% in Mexico, and from about 25% to less than 10% in Peru.<sup>23</sup> A large portion of this decline was due to the fall in public sector employment, but union affiliation fell in the private sector as well.<sup>24</sup>
- 1.21 **There was also a global trend away from collective bargaining to negotiations on a company-by-company basis.** For example, in the 1980s, multi-employer bargaining disappeared or receded in Britain, France and Italy.<sup>25</sup> The LAC experience in this area is varied: in Argentina, for instance, where the decline in union density was the result of a labor flexibilization process, unions were able to maintain political power and the collective bargaining process that had been reintroduced in the country with the democratization of the early 1980s; in Uruguay, on the other hand, there was a move toward less state intervention and bargaining at a firm level.<sup>26</sup>
- 1.22 **Strong union resistance during the early stages of structural adjustment eventually gave way to more collaborative approaches working within the new realities.** According to an ILO study, in the last twenty years labor unions “adapted themselves to the changes in the world of work; in the process they emerged as major partners in development contributing to the growth of markets and democratic institutions.”<sup>27</sup> Labor relations issues are important for their impact on productivity: they can be conducive to high motivation and effort or to low morale and poor outcomes.<sup>28</sup> Evidence suggests that labor relations in Latin America tend to be poor. For example, the 2000 Global Competitiveness Report included six countries in the region among its sample, and two of those ranked among the most hostile in terms of labor relations. The Latinobarómetro survey in 1997 found that a wide majority of respondents mistrust employers and think that relations between employers and employees are poor.<sup>29</sup> This issue has gained attention in LAC over the last decade, in part with MIF support (see Chapters II and III).

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<sup>22</sup> Aidt and Tzannatos, p2.

<sup>23</sup> Saavedra 2003, p246.

<sup>24</sup> Saavedra 2003, p246.

<sup>25</sup> Regini, Marino. Editor. “The Future of Labour Movements” London: Sage Publications. 1992, p 36.

<sup>26</sup> Saavedra 2003 pp 245-246.

<sup>27</sup> A.V. Jose, editor. Organized Labor in the 21<sup>st</sup> Century. Geneva: International Labor Organization, 2002, p1.

<sup>28</sup> Duryea and Pagés 2002, p29.

<sup>29</sup> Duryea and Pagés 2002, p30.

## 7. Summary

- 1.23 **In summary, the decade leading up to MIF intervention and the ten years in which MIF has been operating, have been marked by increased economic globalization and trade liberalization.** Within this context, companies shifted their focus to increase productivity and competitiveness. This new economic scenario imposes paradoxical demands on labor markets: on the one hand, it calls for more highly skilled workers that are able to match the needs of the productive sector and enhance productivity, and on the other hand, for a less costly labor force in order to increase companies' cost-competitiveness around the globe.
- 1.24 **These changes had a dramatic impact on labor markets in LAC, as the countries moved from environments of labor stability under protectionist economies to flexible and dynamic labor markets in open market economies.** The benefits of the economic model applied to LAC are yet to be realized consistently across the region, and the models are still being tested. No consensus yet exists on whether the reforms have not delivered expected results because of incomplete implementation or fault with the model itself. Specifically, in the area of labor markets, economic reforms have led to transformations that continue to pose challenges for identifying the appropriate approach for enhancing the effectiveness of labor markets in providing equitable access to income for the population and a competitive workforce for the productive sector.

### B. Human Resources Development Trends

- 1.25 **In line with the global economic and labor market trends, human resources development (HRD) policies and programs shifted to meet the new economic realities.** The increased competitiveness and need for companies to adapt to technological change, along with the new emphasis on worker skills, all led to a new focus on lifelong learning and continuous training of the workforce. The role that investments in human capital play in economic growth and enterprise productivity gained increased attention.
- 1.26 **Market forces alone do not suffice to provide an adequate and appropriate supply of HRD services and programs. Policies are required to overcome a series of market failures** facing firms and workers, such as credit market constraints, the so-called "poaching" externality, i.e. free-riding firms capturing workers trained by other firms, and the lack of information regarding the supply and demand of labor skills. The need for public intervention has also been justified by the fact that those most likely to benefit from the training provided by firms are the more educated, higher-skilled workers; companies that invest tend to be the larger, more competitive ones; and firm-sponsored training alone does not cover all needs of the workforce. While it is recognized that incentives and interventions are needed to overcome these market failures, the best way to implement them is still unclear. Several new approaches aimed at enhancing the effectiveness of labor market interventions have been pursued over the last decade, providing some preliminary lessons, but still requiring further testing of models, particularly in the LAC context.

- 1.27 **One point of success noted in recent years has been the increased coordination between public and private actions.** As research by Finegold (1999) and others points out, “successful public policies need to be embedded in an institutional structure that coordinates actions of workers and unions, firms and business organizations, and governments. The challenge is to find what kind of public intervention through what institutional structure is the more efficient and cost-effective way to achieve the objective of providing the majority of the population with relevant, high-status, transferable skills.”<sup>30</sup> The training system, therefore, should be understood not only as training organizations, but as the full set of institutions and rules involved in the skill-development of new entrants and the skill upgrading of existing workers. These institutions and rules can be a mix of public regulations and institutions and private arrangements among firms, workers, and unions.<sup>31</sup>
- 1.28 **The region has been struggling to respond to the economic and labor market trends of the 1990s but systemic barriers pose particular challenges to labor market and human resources development policies and programs.** These include: a) training systems in LAC have traditionally been dominated by public sector training institutes, which had difficulty responding rapidly to the changing needs of the private sector; b) training tends to lack sufficient demand-orientation and is not integrated with job placement; c) the predominance of micro, small and medium enterprises (SMEs), who are more significantly impacted by the market failures noted above,<sup>32</sup> and d) by the lack of incentives aimed at promoting investment in this area.
- 1.29 **Most countries in the LAC region lack incentive mechanisms for training investments.** Furthermore, they also face the commonly found obligatory payroll tax, generally earmarked to a national training institute, which represents a disincentive for such investments. The limited supply of quality training offered outside the public training institutes also affects the level of employer investment.

## 1. Active Labor Market Policies

- 1.30 **In order to keep up with the dynamic global marketplace and to more effectively transition workers into jobs in the new knowledge-based economy, OECD countries shifted their focus from passive to active labor market policies.** As summarized by Mazza (2001), “passive labor market policies are income support policies such as unemployment insurance (principally) and disability payments that address basic income needs of workers, but are passive in that they do not directly re-insert or prepare workers for re-entry into the labor market. Active labor market policies are those that more directly prepare or re-integrate workers in the labor market such as labor intermediation services (e.g. job search assistance, placement), training programs, and employment

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<sup>30</sup> Marquez 2001, p6.

<sup>31</sup> Marquez, 2001, p3.

<sup>32</sup> Despite perceptions to the contrary, research has found that “modern sector firms” in Latin America invest in training in roughly the same proportion as those in the US and Canada. Marquez 2001, p4

subsidies.”<sup>33</sup> The need for active policies was highlighted in the OECD Jobs Study produced in 1994, which continues to be the benchmark and guideline for OECD labor market policies today.

1.31 **Most LAC countries have always focused primarily on active rather than passive policies.** Only seven countries in LAC have some form of unemployment insurance – Argentina, Brazil, Barbados, Chile, Ecuador, Uruguay, and Venezuela – and Mexico has a program that is limited to pre-retirees from ages 60 to 65.<sup>34</sup> Almost all of these were developed during the 1980s or 1990s, and they differ in scale and scope. The driving force of labor market policies in LAC has been training. Other active labor policies, such as labor intermediation, have been limited and these have tended to be publicly-run employment services rather than full intermediation services, and private sector participation has been limited until recent years.

1.32 Key trends within active labor market policies globally and specifically within LAC are explored below in the following subsections.

**a) Training and lifelong learning**

1.33 **On a global level, the new emphasis on active labor market policies was accompanied by a shift in the approach to training and employment services.** While previously viewed primarily as part of poverty alleviation strategies, training came to be seen as a means of enhancing the competitiveness of businesses as well as the workforce. An increase in learning opportunities for adults within the context of lifelong learning has been deemed necessary in OECD countries for several reasons: a) demands of the increasingly knowledge-based economy; b) high unemployment observed among unskilled workers; c) recognized importance of human capital for economic growth; and d) public interest in social and personal development.<sup>35</sup> In addition, there has been a shift in the understanding of the type of training needed. In the modern global economy that demands flexibility, employers and workers need continuous training programs – comprised of short, modular courses designed to match company-specific strategies – that produce predictable results and measurable impact on competitiveness.<sup>36</sup>

1.34 **Despite this emphasis on training, the effectiveness and efficiency of such investments are still debated.** Much of the research and evaluation of training programs have found mixed and often low effectiveness of training programs in terms of facilitating job insertion. Studies in OECD countries have called into question the cost-effectiveness of training as opposed to other interventions such as labor intermediation

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<sup>33</sup> Mazza, Jacqueline. “Labor Intermediation Services: A Review for Latin American and Caribbean Countries”, Paper presented at IDB seminar entitled “First Technical Meeting on Labor Market Issues”, in Panama City, November 2001, p 10.

<sup>34</sup> Mazza, Jacqueline. “Unemployment Insurance: Case Studies and Lessons for Latin America and the Caribbean.” Unpublished Technical Study prepared for the IDB, May 1999.

<sup>35</sup> OECD. *Beyond Rhetoric: Adult Learning Policies and Practices*. OECD: Paris, 2003.

<sup>36</sup> Alberti, José Pedro and Javier Lasida. “Los Institutos Públicos de Formación Profesional” Unpublished IDB Paper prepared for RE3/OD5, August 2000.

services, due to the high cost and limited short-term impact in employability of training participants, as compared to control groups.<sup>37</sup> However, others claim that training has a longer-term impact on a macro scale that has yet to be studied extensively,<sup>38</sup> and that training program effectiveness varies and can be enhanced with appropriate market-driven designs. According to Morrison (2003), research has indicated that training is most effective in targeted interventions on a relatively small scale aimed either at specific disadvantaged groups such as youth and women, or at specific skills or sectors.<sup>39</sup> Enhanced effectiveness of training is being sought by increasing the demand orientation of courses so that they respond to actual needs in the labor market, developing more direct links to job placement, and increasing employer-led and on-the-job training.

- 1.35 **Innovative elements to improve training programs have been slow to materialize in LAC. Despite efforts at reform over the last decade, most countries maintain National Training Institutes (NTIs) that continue to operate with their original conception of providing a vehicle for direct state intervention in training, usually in a highly monopolistic environment, acting as both regulator of the training system and its main provider of services.**<sup>40</sup> Reform of these institutes became an important challenge, which the IDB as well as national governments have attempted to address with limited results. Reforms were attempted in three general areas: (i) administration; (ii) planning and information services; and (iii) financing. The main focus of the administrative reforms has been on the decentralization of the institutes, however, since decision-making power and autonomy has generally not been transferred, Alberti and Lasida's review of various case studies concluded that "there are many cases of incomplete and consequently failed decentralizations."<sup>41</sup>
- 1.36 **In terms of financing, several models were tested in order to provide flexibility in the payroll tax scheme, including for example allowing employers to reduce a portion of their taxes based on funds invested directly in training.** These financial mechanisms had limited results, in part because the NTIs themselves were responsible for implementing the tax deduction schemes. Furthermore, businesses were limited in their ability to contract training directly because private training systems were not well developed and lacked, among other things, much needed supervision and certification.<sup>42</sup>
- 1.37 **Other efforts at reform of the training system in LAC have involved the introduction of greater competition and the strengthening of the private sector supply of training, rather than attempting to directly reform or eliminate the NTIs.** The IDB as well as the MIF pursued this approach. Several youth training programs in Latin America have followed this path. These programs link training to demand and

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<sup>37</sup> Morrison, Andrew, "Políticas Activas de Mercado Laboral: experiencias recientes en America Latina, el Caribe, y los Países de la OCDE" IDB Working paper downloaded at [www.iadb.org](http://www.iadb.org) April 2003. On this point of criticisms of training investments, Morrison cites the studies of Betcherman et al (2000).

<sup>38</sup> Morrison 2003, p8.

<sup>39</sup> Morrison 2003, citing Meager and Evans 1997), p8.

<sup>40</sup> Alberti, José Pedro and Javier Lasida, "Los Institutos Públicos de Formación Profesional" Agosto 2000.

<sup>41</sup> Alberti and Lasida 2000, p 7.

<sup>42</sup> The description of three areas of reform is drawn primarily from Alberti and Lasida 2000.

create a competitive training market. The public sector contracts, through competitive biddings, training services from private providers that are required to demonstrate the existence of demand for the training areas proposed. Furthermore, a portion of payments is linked to the proportion of participants inserted in the labor market.<sup>43</sup>

- 1.38 **Although reform has been slow, some changes have taken place in the region over the last ten years, with a few countries making strides toward modernization of their labor market policies and training programs and others beginning to test new approaches.** In reflecting on the state of training systems in Latin America in 2001, Marquez noted: “what we find today is that training systems are in a fluid organizational and institutional state. In most countries the training system performs poorly and shows little or no ability to innovate. In some countries, such as Chile, Mexico and Brazil, however, the training system, that has evolved is well able to experiment and innovate in training provision.”<sup>44</sup>

**b) Labor intermediation**

- 1.39 **One of the key elements of active labor market policies is labor intermediation, which refers to the services that “intermediate” between labor supply and demand with the intention of improving the speed and quality of the match between available jobs and jobseekers.**<sup>45</sup> The term labor intermediation implies a broader range of services than just job placement to include as a core: job search assistance (preparation of résumés, information on how to look for a job, conduct interviews, etc), and placement. When coordinated with training, labor intermediation has been found in some studies to enhance the effectiveness of training programs.
- 1.40 **In OECD countries, the modernization of labor intermediation services was undertaken to make the public services more effective and client-driven, and to expand the use of private service providers either as contractors to public systems, competitors, or as partners.** There were four key reforms pursued: (1) integration of employment, training, and income support functions; (2) expansion of interventions for the long-term unemployed, including the use of profiling and early intervention, case management, and benefit sequencing; (3) introduction and strengthening of intermediation performance indicators; and (4) introduction of market, including contracting out of services and developing partnerships with private placement agencies.<sup>46</sup>
- 1.41 **Only in the last five years, similar trends have been pursued in LAC.** However, the changes are occurring at a much slower pace, and are still limited to a few countries. As will be discussed in Chapters II and III, the MIF has played an important role in supporting these reforms.

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<sup>43</sup> Since this initiative has been a central part of IDB strategy, it is also discussed in Chapter II.

<sup>44</sup> Marquez, Gustavo. “Training the Workforce in Latin America: What needs to be done?” Paper presented at “First technical Meeting on Labor Market Issues: Panama City, November 2001, p 1.

<sup>45</sup> Mazza, 2001, 8.

<sup>46</sup> Mazza, 2001, p11.

### c) Employment creation

1.42 **In general terms, programs that subsidize employment or create publicly-funded temporary work have declined in importance in much of the OECD, but still played a prominent role in LAC over the last two decades, primarily through Social Investment Funds (SIFs).** In LAC, employment creation through SIFs has focused on the direct creation of jobs. Several evaluations have noted positive results of the SIFs in reducing poverty, but extensive studies do not exist to measure the net impact on employment. Data does show that the SIFs affect only a small portion of the labor force – from a negligible percent in Chile to a “high” of 1% of the workforce in Bolivia.<sup>47</sup> Assessments of the labor impact of these programs, both in LAC and elsewhere, have been mixed. Even though they do not seem to have significant success, they do seem to provide some benefits such as small net employment gains in the short run, and help to individuals in gaining work experience and maintaining their skills and motivation, in the long run.<sup>48</sup>

## 2. Results from Active Labor Market Policies

1.43 **Evidence is not yet conclusive on the most effective means of addressing labor market needs, particularly in the LAC context.** Some studies are beginning to demonstrate positive impacts of the innovations introduced in recent years, while others continue to be skeptical of overall effectiveness, particularly of training programs. Many of the models implemented in LAC are based on trends and lessons emerging in developed countries, and more piloting and research seems to be required in specific LAC countries. In a World Bank analysis of 100 impact evaluations of active labor market programs, Dar and Tzannatos (1999) conclude: “Evaluations show that it is extremely difficult to address problems of large scale unemployment through active labor market programs - these programs may work for specific groups under specific circumstances - hence, they have to be carefully targeted on the basis of evaluative evidence. It is clear that programs that work for one group in one country may not work for the same group in another country.”<sup>49</sup>

1.44 **Research on labor market programs reveal diverse results, highlighting the uncertainty that exists regarding the effectiveness of labor market programs, and training in particular.** Even though research, such as that by Dar and Tzannatos, have found that under the best-case scenarios, payoffs are usually modest and social rates of return of programs can be sometimes negative based on cost-benefit analyses, there is evidence that suggest that effectiveness can be increased if programs are delivered by private providers instead of the public or NGOs. Evidence from some OECD countries also suggest that certain active labor market programs can be effective, when designed correctly. For example, a 1996 OECD report on its Jobs Strategy noted that studies of labor market programs have found that “job search assistance, comprising services such

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<sup>47</sup> Morrison 2003, p14.

<sup>48</sup> OECD. “The OECD Jobs Strategy: Pushing Ahead with the Strategy” Paris: OECD, 1996, p8.

<sup>49</sup> Amit Dar and Zafiris Tzannatos - “Active Labor Market Programs: A Review of the Evidence from Evaluations.” SP Discussion Paper No. 9901, World Bank, 1999.

as initial interviews with the public employment service, in-depth counseling, jobs clubs, etc is usually the least costly intervention and evaluations show consistently positive outcomes in terms of the re-integration objective.”<sup>50</sup>

- 1.45 **Mixed results to date indicate that more research and testing of models are needed.** This is particularly true for LAC where the context may lead to different results than those found in OECD countries. For example, deficiencies in the formal education system in LAC may suggest that labor training for youth and adults can have a greater impact than in more developed countries. While additional evidence is needed, impact evaluations of youth programs in Latin America indicate that that these projects have generally been successful when implemented with a demand-orientation and linkages to job placement. A review of select MIF and IDB-supported youth training projects found that participants were more likely to find work than those in control groups: in the case of Chile, participants were 34% more likely to find employment (female youth were 68.5% more likely to find jobs). In the case of Uruguay, participants were 67% more likely to be employed, they found employment more quickly and the average salary was 20% higher than the control group<sup>51</sup> Research suggests that if a country is going to institute active labor market programs, it should start off with modest programs, evaluate these programs rigorously using sound, scientific evaluation techniques, and then tightly target these programs to those for whom they are found most cost-effective.<sup>52</sup>

### 3. Skill Standards and Certification

- 1.46 **Another important global trend in human resources development led by OECD countries was the move to defining specific standards and competencies that would guide labor certification and influence the quality of training.** Certification and credentialing systems based on skills standards focus on the competencies or outcomes required for success in the workplace. By testing and certifying a worker’s skills regardless of how they acquired the skills, this approach recognizes that skills and knowledge are the currency for employment and career advancement and that industry-relevant skills and knowledge can be acquired in many ways including on the job. In the 1980s several countries began experimenting with the development of standards systems. A variety of approaches have been followed: from the more state-supported processes of the UK, to the more industry-driven systems of the US and Canada. These programs have begun to have a broad impact on training, as curriculum shifted to competency-based approaches that utilize skill standards. While some progress has also been made in terms of certification systems, the latter are still under development and refinement. In the LAC region, several countries began to experiment with labor standards and certification during the 1990s. As discussed in Chapters II and III, much of this progress was done with the initiation or support of the MIF. Labor standards and certification are increasingly becoming more internationally accepted and are currently in the process of

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<sup>50</sup> OECD, “The OECD Jobs Strategy: Pushing Ahead with the Strategy” Paris: OECD, 1996, p8.

<sup>51</sup> González Rozada, Martin and Bucheli, Marisa. Final Evaluation ATN/MH-4525-UR Opción Joven. Montevideo, Uruguay. December 1997.

<sup>52</sup> Dar and Tzannatos

being included within the International Standards Organization (ISO) framework, which had previously focused on measures of the quality of company products rather than labor. This can represent an important turning point given ISO's recognition in the marketplace.

- 1.47 **Interest in the development of skill standards and certification programs has been growing steadily.** However, the market has not yet reached maturity even in highly developed countries. There is still a high degree of uncertainty in relation to the positive net impact of skill standards and certification programs, in part due to the fact that these interventions have only recently become more generally applied. There is not a large enough functioning market to determine the willingness to pay for certification programs. Further piloting and incentives are needed to meet market gaps.

#### 4. The Role of Formal Education

- 1.48 **Without denying the important role that lifelong learning and continuous training play in maintaining a skilled workforce, research consistently finds that formal education at the primary and secondary levels are the most critical factors in determining the skill-set of the workforce and even the effectiveness of the training offered in later years.** Basic skills in literacy and numeracy, which are produced in the educational system, are essential for any training system to work properly.<sup>53</sup> Most workers in LAC have less than a secondary education. Even though education coverage has increased considerably in LAC over the last two decades, quality continues to be an issue. The region's average gross secondary enrollment ratio rose from 54% in 1990 to 62% in 1997, and primary school completion had grown to 82% on average by 1997.<sup>54</sup> Nevertheless educational attainment remains low among the existing workforce. On average, Latin Americans over 25 years of age had completed six years of schooling, as compared to averages of over 11 years in rich countries such as the US, Sweden and Canada, and averages of eight to 11 years in South East Asian countries.<sup>55</sup>

#### 5. Summary

- 1.49 **Over the last two decades, approaches to labor market policies and human resources development have evolved to keep pace with the changing global economic environment.** Public intervention in this area is needed based on a number of market failures and gaps that prevent the private market alone from meeting the needs of the workforce. The most effective means of addressing these market failures, particularly in the context of the transformations the labor market has undergone, is still being determined. Many innovations in approaches to labor market policies and programs have been pursued and are beginning to provide lessons for increasing the effectiveness of these interventions. These changes have been spearheaded in many cases by OECD countries, but have drawn on lessons from around the world.

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<sup>53</sup> Marquez, 2001, p 3.

<sup>54</sup> Wolff and Castro 2003, p185.

<sup>55</sup> Suzanne Duryea and Carmen Pagés, "Human Capital Policies" What they can and cannot do for productivity and poverty reduction in Latin America" Washington DC: Inter-American Development Bank Working Paper Series 468, April 2002, p8.

- 1.50 **An over-riding trend has been the move to make training more directly relevant to the demands of the productive sector, thus increasing the employability of participants and the productivity of the workforce as a whole.** Key elements pursued to this end have included a move toward greater private-public partnerships to ensure greater demand-orientation, increased competition within training markets, improvements in labor intermediation services, and the move toward defining basic competencies and skill standards against which workers can be certified. Other trends include the increased attention to issues of equity in labor market policies and the role of formal education. In LAC these trends have been pursued at a relatively slow pace, as much of the region continues to face challenges that include public sector dominated training systems, and limited employer involvement in part due to the high portion of SMEs and informal employment in the region. Most important, however, for the context of this evaluation, and for the MIF, is the cautionary note that active labor market policies and programs must be implemented on a pilot basis and tested for the specific conditions of any given country.
- 1.51 Table 1.2 summarizes the key lessons learned in human resources development in OECD countries and the challenges facing LAC in implementing these lessons.

**Table 1.2: Lessons from OECD and Challenges in LAC**

<u>Key lessons for HRD from OECD countries</u>	<u>Key challenges facing HRD in LAC</u>
Public and private sector roles complementary Training must be demand-oriented, linked with productive sectors Labor intermediation to be cost-effective should have links with private sector Strong private institutions such as chambers and unions play key role Assessing and certifying the compliance of the workforce with skill standards is important Uncertainties and questions dominate the implementation of active labor market policies	Public sector dominated system, funded with earmarked payroll tax channeled to quasi-monopolistic national training institutes Limited demand-orientation of training Limited private sector supply or competitive market for training services Limited employer investment in training among SMEs Disincentive for employer investment created by payroll tax Need to develop and implement active labor market policies that are relevant for the specific characteristics of the countries of the region

## II. STRATEGIC OBJECTIVES OF THE MIF

2.1 This chapter summarizes both the Bank and MIF strategies in the area of labor markets and human resources development. (See Annex II for complete analysis). Relevant MIF and Bank documents were analyzed to identify the explicit as well as implicit strategic intent in this group of projects.

### A. Policies and Strategies of IDB

2.2 **While the MIF placed considerable emphasis on HRD programs, the IDB through its general operations has had a relatively limited role over the last twenty years in the area of labor market reform and human resources development, as compared to its other areas of operation.** While these issues were addressed to varying degrees in sector policy loans and Social Investment Funds, a Bank review conducted by the Sustainable Development Department (SDS) identified only 16 Bank operations approved between 1990 and 2002 with an explicit focus on labor market issues. These 16 loans total approximately US\$2.5 billion, representing roughly 3% of the Bank's full lending portfolio of US\$77.5 billion approved during this same time period in a total of 1,041 loans. Involvement of the Bank in labor market issues increased during the latter half of the 1990s: the majority of the 16 loans were approved after 1996, and almost half were approved after 1999.

2.3 **The Bank made a conscious decision not to develop an official strategy on labor policy, in order to allow Bank staff to monitor the evolving context of labor issues and provide more flexible, innovative responses to meet country needs. The MIF has provided an important complement to the Bank in this area, with MIF projects piloting new approaches that served as demonstrations for larger reform efforts.** It must also be noted that the Bank's role in addressing labor market policies was limited during the 1980s and 1990s by its support to the flexibilization of labor laws as part of the overall adjustment package being pursued in the region. The acceptance of these reforms was limited within the region and they were the target of considerable social debate. The role of the Bank in encouraging these reforms thus limited the institution's ability to engage in a more in-depth dialogue regarding labor issues.

2.4 **Bank activity in this area has been primarily concentrated in human resources development, rather than the broader areas of labor market policy.** Support for development of human resources is included under the objectives of the Bank in its Eighth Replenishment. The official Bank strategy on technical and vocational training (GN-2501-1) lays out the following priorities for Bank financing:<sup>56</sup> (i) reform of the training institutes as the number one priority; (ii) new programs and technologies to reach the poor (e.g. distance education, youth training); (iii) improvements in traditional

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<sup>56</sup> Castro, Claudio de Moura. "Capacitación vocacional y técnica: una estrategia para el BID", Washington, DC: IDB, 2001. Strategy presented and approved by the Board on April 19, 2000.

vocational training, through introduction of competency-based training, modular courses, demand-orientation, impact studies, certification, and other innovations; (iv) programs to reorient training and financing of private sector, through for example, incentives to stimulate diversification of the market; and (v) improved preparation, approval, and control of training related to all IDB projects.

- 2.5 **In general, Bank operations in labor markets development have covered three principal types of operations over the last ten years: (1) training and workforce development programs; (2) education programs with components of vocational education and adult education; and (3) comprehensive loans covering support to modernization of labor market policies as well as training and labor intermediation, in those countries moving in this direction.**<sup>57</sup> Reform of the national training institutes was an area addressed by the Bank through policy loans. Historically, the Bank had funded the state owned national training institutes, but in the nineties when the weaknesses of those institutions became apparent, the Bank began to support their reform. As noted in the previous chapter, these efforts had limited success in most countries. Therefore, the Bank's strategy has mainly been to work at promoting the growth of a private supply and development of alternative training schemes. The youth training projects supported by the Bank in the 1990s followed a scheme that aimed at reforming the training market while also increasing the relevance of training and insertion rates of youth. These projects were implemented in Chile, Argentina, Uruguay, Peru and Venezuela. As the Bank vocational training strategy document noted, these projects achieved varying degrees of success, but overall did not lead to structural reforms in the system.<sup>58</sup>
- 2.6 **Although less common, the Bank has made important contributions to comprehensive labor market reform programs.** Six of the 16 labor market loans in this arena had a component of labor policy reform. The Bank's support of large-scale labor reform in Mexico in 1996 marked, according to IDB press releases, the Bank's first comprehensive labor market program for Latin America. The Bank continued to work closely with Mexico throughout its reform process, approving a Phase II labor market loan in 2000 and currently preparing a Phase III. Only one region in the Bank, Region 2, has a written action plan for labor market development, and it calls for coordinated actions between the Bank and the MIF.<sup>59</sup> The action plan defined three categories of operations, depending on the level of readiness of countries for comprehensive labor market reform and calls for coordinated use of loans, MIF grants and technical cooperations depending on country needs.
- 2.7 **In recent years, the Bank has begun to turn increased attention to labor market reform.** Since 2001, the Bank has been holding a series of seminars on labor market

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<sup>57</sup> This categorization is taken from Jacqueline Mazza and Ignacio Fiestas document prepared for SDS summarizing Bank activities in the area of labor markets. The operations they listed under "other" have here been combined under "training."

<sup>58</sup> Castro, 2001, 2

<sup>59</sup> "Action Plan for SO2 Labor Markets Operations: 2000-2002" Internal IDB Document developed by Jacqueline Mazza, July 18, 2000.

issues throughout the region and holding a series of brown bag lunches and internal seminars on labor issues, organized under a group known as “LaborNet” managed by SDS. The increased interest in labor market policies at the Bank is in part due to the rising urgency of the unemployment situation in the region, which is augmenting poverty levels and risking destabilization. The IDB’s 2003 Annual Report on Economic Progress (IPES) will focus on labor market issues. The changes in Bank strategy relating to labor markets represent a relatively significant departure from the past, and the Bank itself still presents limitations to work proactively in this area: it has only a handful of labor economists and the political difficulties of working in this field have steered many away from it in the past, since political pressures can influence project design and implementation.

**B. Official Strategy of the MIF Human Resources Facility: Evolution over Time**

2.8 **Over time, the MIF strategy for the Human Resources Facility (HRF) maintained a common thread of projects addressing labor market development and human resources needs in the region, but the specifics of the strategy were modified several times.** Four key milestones mark the evolution of official MIF strategy in this area; these are summarized in Table 2.1 and discussed below.

**Table 2.1: Summary of MIF HRF Strategy Evolution**

<b>Overarching mission, from Articles of Agreement: “Develop the human resource base needed for increased investment flows and an expanding private sector”</b>			
<b>1993 Articles of Agreement</b>	<b>1994 Strategy Paper</b>	<b>1996 Task Force</b>	<b>2000 Working Group</b>
<ul style="list-style-type: none"> <li>• Training displaced workers</li> <li>• Training workers and managers</li> <li>• Training regulators</li> <li>• Training scientific, technological professionals</li> <li>• Strengthening private sector capacity to train</li> </ul>	<ul style="list-style-type: none"> <li>• Short term response to adjustment</li> <li>• Build permanent capabilities to develop human capital</li> <li>• Pilot new models</li> <li>• Supplement training with links to employment and labor intermediation</li> </ul>	<ul style="list-style-type: none"> <li>• Labor market reform (standards systems, strategic planning, information systems)</li> <li>• Continuous education and training</li> <li>• Development of new products for training</li> </ul>	<ul style="list-style-type: none"> <li>• Skill standards and credentialing (under Small Business Development cluster)</li> <li>• Labor market modernization (under Market Functioning cluster)</li> </ul>

2.9 **The overall objective of the HRF, as stated in the MIF Articles of Agreement, is to “develop the human resource base needed for increased investment flows and an expanded private sector.”**<sup>60</sup> Specific activities noted for HRF funding were almost entirely related to training, namely: training of displaced workers; training to assure that skilled workers and managers meet the special needs of expanded private sector; training of regulators essential to the operation of a market-oriented economy; training of scientific, technological and managerial professionals; strengthening of vocational training and other institutions.<sup>61</sup>

2.10 **Working within the overall guidelines defined in the Articles of Agreement, Bank staff proposed in 1994 a more detailed preliminary strategy for focusing the MIF**

<sup>60</sup> Articles of Agreement of the Multilateral Investment Fund, 1992, Article III Section 3.

<sup>61</sup> Articles of Agreement of the Multilateral Investment Fund, 1992, Article III Section 3, points (a) – (e).

**activities in human resources development.** The general premise behind the HRD activities within the MIF was that “without adequately trained labor and a well-functioning labor market, the private sector investment sought by the MIF cannot come about.”<sup>62</sup> A twofold strategy was proposed. First was a series of “quick response” programs to meet needs of the labor market during the adjustment period. Programs identified within this area included retraining and job placement for displaced workers, and the provision of trained labor for new investments. The second strategy was to help build permanent capabilities within Latin America to more effectively reallocate labor and develop human capital. The importance of recognizing the variation of labor market conditions and needs among countries was stressed and the strategy recommended studies and needs assessments as a line of activity for developing country-specific strategies.

- 2.11 **The 1994 strategy report emphasized that the MIF needed to be cautious with training programs,** noting that “any [training] programs planned under the HRF must be carefully designed, linked closely with the needs of the marketplace, and utilize more innovative types of training methods rather than traditional, more formal methods.”<sup>63</sup> The strategy further called for pilot programs that would target specific training needs in the market. Innovative elements emerging from OECD countries were highlighted for application in LAC such as modernized employment services, job search information, on-the-job training and apprenticeships.
- 2.12 **In 1996, the Task Force noted that the “MIF role as pioneer for promoting private sector participation in the training of the workforce is also fully consistent with both agendas of the region and the MIF.”** Two recommendations of the Task Force were particularly relevant to the strategy for the HRF. One was that the thrust of the original strategy on alleviating the social cost of adjustment was no longer relevant. Second was that the MIF needed to be more careful about complementing rather than substituting for Bank operations. Because there was considerable debate during the Task Force review over the focus that should be given to the HRF, a special seminar with international experts on labor market issues was convened. The seminar participants confirmed the importance of MIF intervention in this area and the appropriateness of the core strategy that was being pursued. Based on the results of the seminar, the Task Force Report called for continuation of HRF projects and defined the following priorities for the HRF, which were similar to those laid out in the 1994 strategy: (1) Labor market reform including policy reform, labor relations, and national training systems, with particular emphases on the establishment of labor market information, competencies, and standards systems; (2) Continuous education and training for the private sector; and (3) Development of new products for training.
- 2.13 **In 2000, the Bank convened a Working Group on MIF Strategy and HRD was no longer listed as a core activity of the MIF.** The Working Group Report recommended two broad strategy changes for the MIF as a whole. The first was that all MIF projects

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<sup>62</sup> Mazza 1994, p2.

<sup>63</sup> Mazza 1994, p56

should have the characteristics of innovation, demonstration effect, sustainability, local partnership, and additionality. Second, the strategy would focus on core activities and clusters: (1) small business development; (2) microenterprise; (3) market functioning; and (4) financial and capital markets. Although HRD was no longer part of the core strategy, two specific areas of HRD activity were listed explicitly under different core activities: skill standards and credentialing was included under Small Business Development; and labor market modernization was included under Market Functioning.

- 2.14 **In summary, the key changes in the strategy of the MIF that took place since its inception were the following: (a) move away from short-term efforts to ease the cost of adjustment; (b) less emphasis on training; (c) increased attention to skill standards and certification; and (d) increased attention to labor market modernization.** Thus, despite the various instances of re-articulation of specific MIF strategy, many of the core principles and strategies articulated in the 1994 preliminary HRF strategy paper were maintained and remained relatively broad. The Task Force recommendations continued to cover the full range of HRD activities including labor market modernization, continuous training, and development of new training models. Although the Working Group seemed to minimize the role of the HRF, in fact by maintaining “labor market modernization” as an area of activity, it left the door open for a range of programs. The key change introduced by these revisions was really to provide more specific guidance on the intended consequences of programs: while labor market modernization could very well include training programs, it could only do so if those projects demonstrated an impact on the workings of the labor market and training system overall.
- 2.15 **The strategy articulated by the MIF matched the trends emerging in the global context in many ways, but the uncertainty regarding effective approaches to labor market development was not explicitly incorporated in the MIF strategy.** The focus on increasing private participation, reforming training systems to be more demand-oriented and linked to job placement, the introduction of skill standards, and attention to issues of labor relations, were all built on worldwide efforts to make HRD more effective and more responsive to the needs of the productive sector. Given the global lessons on difficulty in achieving impact through training programs, the strategy did include training, with a cautionary note and emphasis on reform. The use of pilot programs was core to the MIF strategy, it did not clearly articulate how the strategic intent of the MIF HRF would be tested and evaluated through its pilot projects.

## C. Analysis of Strategic Intent Articulated in Projects

### 1. Overview of Project Evolution

- 2.16 **Since the fundamental elements defined in 1994 remained relevant and included in the articulated strategy,<sup>64</sup> a critical issue for analysis is the extent to which MIF projects maintained the focus laid out in the strategy.** In order to examine the

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<sup>64</sup> With the key exception of the programs to address short-term costs of adjustment.

manifestation of strategic intent within projects, we classified the 75 projects according to the general strategy they were implementing: (1) Displaced Workers; (2) Labor Market Modernization; (3) Skill Standards; (4) Training of New Entrants and Unemployed; and (5) Workforce Development. See Appendix 3 for a complete list of the 75 projects listed according to these five classifications.

- 2.17 **The evolution of the strategy is not immediately apparent when one looks at the progression of projects over time** (see Table 2.2). This is in part due to the fact that the strategy did not really change fundamentally. Three key trends are apparent, all having been influenced by the Task Force Report: (a) phasing out of displaced worker projects after 1996; (b) increase, after 1996, in skill standards projects, especially addressing comprehensive standards systems; and (c) increase in labor market modernization projects after 1996. In order to understand how the strategy applied in the projects evolved over time, we must take a closer look at the projects themselves and the several sub-categories within each area, which pursued distinct approaches and strategies.

Table 2.2: Evolution of MIF Project Approvals by Category and Sub-Category

	1994	1995	1996	1997	1998	1999	2000	2001	2002	No. of Projects	Total US\$ MM	
1. Displaced Workers	<i>Worker-based models</i>									8	21	
	2	3	1									
				<i>Community-based model</i>		<i>Company-based model</i>						
				1	1							
2. Labor Market Modernization	<i>Labor relations</i>									11	16.4	
	1			2	2		2					
				<i>Labor intermediation</i>				1	1			
				<i>Labor Ministries Modernization</i>		<i>Occupational Health and Safety</i>						
				1	1			1				
3. Skill Standards	<i>Skills-based training</i>									14	24.6	
	1	1	1	1	2							
				<i>Standards systems</i>								
				1	3	1	1	1	1			
4. Training	<i>Youth Training</i>									28	67.7	
	2	1		1	2	1	1					
	<i>Strengthening training market (supply)</i>											
	1	1					2	1				
	<i>Training system reform</i>											
	2	1	3	1	1	1						
<i>Training in rural areas</i>												
				1	1	1						
<i>Women training</i>												
				1	2							
5. Workforce Development	<i>Piloting new work-based training models</i>									14	24.5	
				1		2						
	<i>Demand-side incentives for employer training</i>											
				1		2						
<i>Sector-based training initiatives</i>												
				2	2	2		1	1			
	1994	1995	1996	1997	1998	1999	2000	2001	2002	75	\$154	

- 2. Strategy articulation within each project category**
- 2.18 **Six of a total of eight displaced worker projects were approved before 1996 when the Task Force Report called for a move away from the projects aimed at addressing the social cost of adjustment.** The earlier projects all followed a model that could be referred to as a “worker-based model” in that they focused on workers who had already been laid off, and attempted to train and reinsert them in the labor force. The two projects approved after 1996 tested different models that were within the guidelines of the Task Force recommendation that labor reconversion activities should be integrated into continuous education and training programs. One tested a new model in which the problem of the displaced workers was addressed by working on job creation in the community as a whole. The other used a company-based model where the project worked with the human resources department of a company before the lay-offs actually began.
- 2.19 **There were 11 projects in the area of labor market modernization. Only one project, labor relations modernization in Uruguay, was approved in 1994, and the rest were approved in 1997 and thereafter.** There are four sub-categories of labor market modernization projects: labor relations, labor intermediation, modernization of labor ministries, and occupational health and safety.
- 2.20 **Most skill standards and certification projects were approved after the Task Force Report in 1996, which specifically defined this as a priority area of activity for the MIF.** There are two earlier projects, both in the Caribbean tourism industry. These projects were more focused on the use of skill standards to improve training quality through the use of competency-based training. While this skills-based training strategy continued, eight of the projects developed after 1996 had broader objectives of piloting the development of full skill standards and certification projects.
- 2.21 **The majority of MIF HRF projects, 28, fall into the category of training new entrants or the unemployed.** These training projects span the whole lifetime of the MIF, from 1994 to 2002. These projects fall into the following sub-categories: youth training, training of women, training in the rural sector, training system reform, and strengthening of the training market. Even though some of the projects that focused on specific beneficiary groups, such as youth and women, also aimed at strengthening the training market and providing pilots to contribute to reform of the training system, the projects in the other two sub-categories set out to do this more explicitly. A clear pattern of evolution among this category of 28 training projects is not readily apparent. The core strategy of financing training only when it was testing innovative approaches and linked to employment was pursued in projects throughout this time frame. However, also spread over the same period were projects that did follow more traditional training models or provided innovations in training in a context that was both isolated and not likely to have a broader impact on the training system, or where long-standing training patterns were not likely to change. This latter instance was particularly

the case of training projects with a strong social orientation in terms of providing for the needs of very disadvantaged groups, such as street youth.

- 2.22 **The second most common category was workforce development, or enterprise-based training, with 15 projects in total, aimed at training of the employed workforce.** Most were implemented over the 1996-1998 time period, with only four approved between 2000-2002. There were three sub-categories of projects: a) piloting of new work-based training models, including the development of on-the-job training programs and the development of new models of management training for SMEs; b) demand-side incentives to spur employer investment in training; and c) sector-based training initiatives.

### 3. Consistency of Strategy Application

- 2.23 **The fact that the majority of projects were training projects suggests that the MIF was not effective in maintaining its strategic intent of limiting such interventions, despite the cautionary note on training explicit in the 1994 strategy report.** Furthermore, the analysis of the MIF strategy and its articulation within projects suggest two important conclusions: (1) the core elements of the strategy for modernizing labor markets and human resources development were sustained over time and in line with global trends and emerging needs in LAC; and (2) this core strategy was not implemented consistently, with a portion of projects not strictly in line with the HRF strategy. This latter point led to a sense of great dispersion among HRF projects and a lack of focus.
- 2.24 **A variety of factors could have contributed to this deviation from the core strategy. Bank staff seems to have been unclear as to specific strategies and priorities of the MIF.** The strategy involved a number of innovative aspects new to the region as well as to Bank staff. Lack of complete understanding of labor market issues among staff could have contributed to the development of some projects that were more similar to traditional training projects and not entirely on target with the core strategy. The extent to which the evolving official MIF strategies were known and understood by Bank staff is also a factor. Particularly in the early years, MIF strategy was not clearly articulated outside the Fund and the specific technical aspects of the HRF strategy was not disseminated in any consistent fashion. Another factor influencing the dispersion of some projects away from the core strategy is the fact that several projects were brought to the MIF's attention by donors with pre-designated executing agencies. These projects were in line with the general objectives of the human resources facility but did not necessarily match the core strategy, or were executed by institutions that did not have the capacity to fully implement the strategy. Seven such projects were identified through the evaluation; others may exist. These seven represent 9% of the total number of projects and 11% of total resources allocated to the HRD group of projects.

## **D. Linkages with IDB Interventions in the Labor Market and HRD**

2.25 **MIF and Bank strategy in the area of human resources development and labor markets policy have, for the most part, been complementary rather than duplicative.** Given their distinct instruments and focus, the MIF and Bank strategies provided the opportunity for the two to work toward these objectives in complementary ways. While the Bank works directly with governments and can support large-scale programs and reform efforts, the MIF is able to work with the private sector and test new, innovative approaches. This complementarity was only taken advantage of in a few projects, most notably in Panama, El Salvador, and Mexico. In most of these instances the specific link to future Bank operations was not made explicit in the MIF Donors Memorandum, since the Bank loan was to follow the MIF operation, building off lessons learned. In only one case studied, Paraguay Labor Reform, the link was in the form of projects developed simultaneously with complementary roles. To highlight one example of positive complementarity, in Panama the MIF piloted new approaches to training and initiated dialogue on reform. Lessons learned from the MIF project, as well as experience gained by the Ministry of Labor and private providers through the MIF project, were used in the design of a Bank loan that took reforms to the next step and expanded the pilot programs.

### III. EVALUATION OF HUMAN RESOURCES DEVELOPMENT PROJECTS

- 3.1 **This chapter summarizes the results of an in-depth evaluation of 75 MIF projects related to human resources development** (Annex III contains a detailed description of the evaluation). The group includes completed projects and those currently in implementation between the years 1994 to the end of 2002. These projects received a total MIF investment of US\$154 million.
- 3.2 The evaluation comprised visits by the evaluating team to projects in nine countries to develop in-depth case studies of 25 projects representing 33% of the total group.<sup>65</sup> Case studies are based on interviews with executing agencies, project beneficiaries, Bank staff, and others, as well as a document review.<sup>66</sup> Project briefs were prepared for the remaining projects, primarily based on a review of available project documentation. The evaluation also incorporated responses provided by 53% of the executing agencies to a survey sent to all MIF executing agencies.
- 3.3 The results have been compiled using a standardized methodology developed by OVE specifically for evaluation of MIF projects. The methodology measures projects against seven dimensions: relevance, effectiveness, efficiency, innovation, additionality, sustainability, and evaluability. In addition, general portfolio statistics on project execution have been compiled to serve as quantitative benchmarks. The seven dimensions were analyzed in three stages of the projects: at the moment of design (ex-ante), during the project execution, and after completion of the project (ex-post). (See Annex IV Methodology).
- A. Analysis of Projects According to the Evaluation Dimensions**
- 1. Relevance**
- 3.4 **MIF HRD projects were found by the evaluation to be fairly relevant interventions at project design and less during execution and ex-post.** Seventy eight percent of projects evaluated were rated as having high or medium high relevance at the time of design. The dimension of relevance measures the extent to which the MIF projects met the needs of the market.
- 3.5 **Most projects were in line with the needs of the private sector for enhanced competitiveness and productivity of the workforce and the emerging global**

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<sup>65</sup> Ten countries were visited as part of the evaluation: Brazil, Peru, Mexico, Trinidad & Tobago, Guatemala, Colombia, Uruguay, Paraguay, Jamaica, and Chile.

<sup>66</sup> Bank Group documentation such as strategy and policy documents, project documents, Country Programming and Country Programming Evaluations, mid-term and final evaluations, and Monitoring and Project Performance Reports (PPMRs) were analyzed. Additional documentation was obtained from the executing agencies and the MIF project files maintained in Country Offices.

**trends on best practices for modernizing human resources development.** As noted in Chapter 1, global economic transformations affected the labor market and competitive positions of businesses in the region, requiring attention to worker skills and new approaches to workforce productivity to meet challenges of new economic climate.

- 3.6 **The relevance of projects at the time of design was supported by studies, which were conducted during project preparation for more than half of the cases reviewed.** Fifty percent of the case studies had market studies and 55% had sector-specific diagnostics. The case studies revealed that the quality of the diagnostic studies varied. In some cases, they proved useful for obtaining information on the institutional framework and market factors that would influence the project. In other instances, however, the studies' conclusions on market demand were not consistent with the reality discovered during the project. This was the case, for example, with the project to train mid-level managers in Paraguay, where despite studies conducted during project preparation, the project found limited market for the envisioned training, suggesting that the studies were not sufficiently grounded in local realities. In several instances studies were conducted after a project had been identified to refine and justify project design, rather than conducted as diagnostics of needs to define areas of intervention. The recommendation of conducting labor market needs assessments for all countries prior to designing specific MIF projects, as identified in the 1994 Preliminary HRF Strategy was not always carried out.
- 3.7 **The usefulness of diagnostic studies for guiding project implementation and overall MIF learning in each area was limited by the administrative process of maintaining these studies in the technical files of the project at IDB headquarters.** Studies are not maintained with the project execution files and are often difficult to locate. Given current technologies, placing these studies online could provide greater learning from project to project and assist with maintaining market relevance over time. Data was also not available on whether studies were generally carried out before specific projects were identified in order to determine the most relevant area of MIF intervention or after project were already under preparation in order to refine project strategy.
- 3.8 **During and following execution, the extent to which projects were able to maintain relevance in the market and generate a demand for services was limited.** Maintaining relevance in the market over time was a challenge for these projects: the percent of projects rated as relevant fell to 52% during execution, and 48% ex-post.<sup>67</sup> This fall in relevance of projects from time of design to ex-post suggests that projects aimed to address appropriate needs, but encountered difficulty in addressing those needs within the market and building a sufficient

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<sup>67</sup> Throughout this chapter, data presented on overall ratings for each dimension take into account all projects studied, while data related to more specific elements within each dimension refer to the sub-set of 25 case studies.

market for the programs. The innovative nature of projects and the slower than anticipated rate of acceptance to change and innovation influenced the ability of projects to build the expected market demand that would have demonstrated concretely the continued relevance of the projects.

- 3.9 **Although there was market interest and need for the project services in most cases, the capacity and willingness of the market to pay for services was slower to emerge than anticipated.** Interviews with project beneficiaries as well as executing agencies in the cases studied revealed that projects did tend to adapt to the needs expressed by the market. In the cases studied, 95% reported receiving some type of feedback from clients and 55% used periodic surveys to obtain information from clients. Perception of clients on the quality of services provided was high in 90% of the cases.
- 3.10 **Many of the innovations introduced by the MIF require longer time periods than the projects allowed to build sufficient market demand.** Experience in other areas of development have found similar trends; in the case of the ISO standards, for example, significant subsidies were required over approximately ten years until the importance of the ISO certification grew in the market and willingness to pay grew.
- 3.11 **The MIF HRD projects introduced many elements aimed at ensuring market demand that were very different from traditional development approaches, particularly in training.** As with all MIF projects, executing agencies had to provide counterpart funds to cover at least 50% of total project costs. Furthermore, the HRD projects aimed to develop cost recovery schemes and insisted in many projects that services, particularly when provided to private enterprises and employed workers, be provided at a fee charged to the beneficiary. The enterprise-based training projects often used matching grants where companies had to contribute a portion of costs to be eligible for services. With the exception of training projects for particular disadvantaged groups, most also required payments from individuals. This was the case for example with the online training provided in Peru, tourism training in Peru, many of the standards and certification programs, and the labor union training in Brazil, among others. Achievement of cost recovery goals was difficult given that it was new to many of the institutions in the region and that other donors were slower to adapt such approaches. In a few cases, such as an enterprise training project in Honduras, another international donor developed a project in parallel to the MIF project but offering full subsidy rather than insisting on payment from beneficiaries. Despite these difficulties, beneficiaries in about half (53% of cases) were found to have a high or medium high willingness to pay for the services.

### Box 3.1: Meeting Relevant Market Demand through Online Education in Peru

The dispersion of industries around Peru, combined with the concentration of qualified technicians and educators in Lima, called for innovative approaches to education in the technical arena, especially as demand grew for technically-skilled labor with expansion of the private sector in industries such as mining and telecommunications.

The MIF addressed this challenge through its support of an online education project with TECSUP, a private tertiary education institute focused on technology, which was created by private companies and maintains an industry-dominated board. The project was highly relevant to the needs of private industry and the country as a whole. It fit within the MIF strategy of advancing the development of innovative approaches to training that were responsive to the demands of the marketplace. The project's objectives included transferring the technology to other training institutes.

Demand for the courses grew during the project. With only about half the project funds disbursed, TECSUP has already surpassed project goals for student enrollment with 934 students participating full time, and has met half its goal of continuing education students enrolled primarily from companies with a total of approximately 3,500 of these students enrolled to date. Three partnerships are already under affect with eight institutions that approached TECSUP for assistance in developing distance education programs. All students pay for the courses, either individually or through their employers. Participants interviewed found the program cost reasonable for the benefits received. Willingness to pay was high.

## 2. Effectiveness

- 3.12 The dimension of effectiveness measures the extent to which projects met their stated objectives, without analyzing whether the objectives were appropriate. Nevertheless, we do examine whether the extent to which projects were effective in meeting objectives was related to the way the objectives were formulated; for example, whether they were realistic given the scope of the project or overly ambitious.
- 3.13 **Overall, about half of the projects were classified as highly effective.** Results obtained from the effective MIF HRD include the existence of some successful demand-based training projects that provide models for new approaches to training; a group of pilot skill standards and certification projects that are ongoing and provide grounds for testing and furthering this approach in the region; reforms of training systems being undertaken in a few countries (e.g. Panama, Mexico) building in part from experience in MIF pilot projects; ongoing work in labor relations and training in collective bargaining initiated under MIF projects; and increased attention to labor market modernization in the region, within Ministries of Labor in particular, and within the Bank.
- 3.14 **The ratings for effectiveness fluctuated over the project life cycle from an average of 42% of high or medium high effectiveness ex-ante to 52% during execution and 49% ex-post. Inadequate mitigation or failure to identify project risks during project preparation reflects in part the slightly lower rating at the time of project design.** Key risks were often identified in project documents, but downplayed in terms of the difficulty of overcoming the risks. Institutional capacity and co-execution schemes were the most commonly cited risks, followed by ensuring sustainability, labor absorption, and private sector participation.
- 3.15 **For the most part, HRD projects delivered on the outputs anticipated in project design:** approximately 70% of the expected products were achieved for the case studies that had disbursed at least 90% of project funds. A few projects

did have difficulty implementing the workplan as anticipated and achieving the goals set out for specific outputs. From a total of 75 projects in this group, four were cancelled with very little to no execution and six were partially cancelled with less than 52% of funds disbursed. These 10 cancelled projects total US\$21.7 million. This represents 13% of the total number of projects and 14% of the total amount of resources approved for HRD projects. The reasons for cancellations varied, and included political changes, external factors such as other donors providing the same services free of charge, and limited demand for project activities.

- 3.16 **Poor performance of the sub-group of seven projects brought to the MIF by donors or the Bank with pre-identified executing agencies affected the overall effectiveness ratings.** On a scale of 1 to 4, with 1 being low effectiveness and 4 high, these seven projects were rated 1.3 ex-ante, 1.8 during execution, and 2.0 ex-post. In comparison, the average for the group as a whole was, respectively, 2.3, 2.4, and 2.4. These projects all fell into the training or workforce development categories.
- 3.17 **While most projects met their output targets, a key challenge was meeting their stated outcome or impact objectives.** In part this reflects the fact that objectives were often too ambitious for the scope of the projects. Broad objectives were frequently cited, such as increasing industry competitiveness and catalyzing change beyond pilots.
- 3.18 **Evaluation of project impact was limited by the fact that project impact was not measured consistently among this group of projects** (see Section B on impact evaluations below). Impact evaluations existed for few projects. Nevertheless, some of the final project evaluations gave a preliminary indication of impact.
- 3.19 **The projects aimed at training of unemployed and new entrants had the lowest average ratings on effectiveness.** Several of these projects did manage to introduce new approaches to training, but in other instances, adaptation of the innovations was not complete and traditional training models with insufficient linkages to the productive sector were pursued. Many youth training projects met or surpassed their goals for number of youth training, but few of these youth actually found employment following the training. For example, in Panama, only an estimated 10 to 20 percent of youth trained were employed following participation in the program, and in Brazil the insertion rate was 28.5 percent. There were some exceptions such as the Bolivia and Uruguay projects, mentioned above, where positive impact was found in the youth training components. Mixed results highlight the importance of careful screening and design of these types of projects.
- 3.20 **Another area of intervention with relatively low effectiveness is reform of training systems.** These projects did move reforms forward, but not to the extent set out in the objectives. Projects in the area of reform tended to be very

ambitious and did not always have the right set of institutional factors in order to ensure effectiveness of the MIF intervention. Nevertheless, success that was achieved in this area, such as in the Bolivia Labor Training Project (see 3.2) and in the Panama Pilot Employment and Training Project, suggest that this is a valid area of intervention with potential for impact, when conditions and institutional arrangements are appropriate.

- 3.21 **Labor market modernization tended to be the most effective type of project.** Projects in the labor modernization category had higher ratings for effectiveness than the group of projects as a whole with medium high or high effectiveness ratings given to 63% of the total projects in this category ex-ante, 88% during execution, and 50% ex-post. The lower rating ex-post reflects that fact that many effective projects in this group are not yet completed and thus did not have ratings for ex-post. Highly effective projects in this category were found in each of the sub-categories (occupational health, labor relations, labor intermediation, and modernization of labor ministries). However, the political nature of these projects, particularly in the area of labor relations, led to ineffectiveness or cancellation of some projects in this category as political climates changed.
- 3.22 **Skill standards projects had mixed results in terms of effectiveness. Projects tended to meet output goals, but achieving the desired impact was more elusive, particularly given the difficulty of developing a sustained market demand for highly innovative products in relatively short periods of time.** As pilots, these projects were effective in setting the groundwork for development of standards systems at sectoral or national levels. Long term institutionalization remains a challenge, though processes and systems set in place under the MIF pilots are continuing to work toward this goal. Progress toward institutionalization has been stronger in some projects than others, depending on the level of engagement of the private sector and capacity of the executing agency to move the process forward. For example, in Chile, the MIF project was leveraged for a national dialogue on development of a national system, and in Brazil the tourism sector is expanding certification throughout the sector, incorporating the labor standards within the ISO framework already in place in the country.
- 3.23 **Provision of adequate technical supervision and support to projects is an important challenge for the Bank and MIF.** Labor market development, particularly related to the private sector, is a new area for the Bank, and few staff are familiar with the technical aspects of the project. Country Office specialists in many cases were not involved in the design of the projects, and when a single MIF specialist is responsible for all MIF projects in a country, it is unrealistic to expect that person to have technical expertise in all areas of MIF intervention. Furthermore, in countries with large numbers of MIF projects, the assigned specialist has an unmanageable workload. It should be noted, however, that there were several instances of positive intervention on the part of Bank staff that led to project restructuring that had positive results for the projects. This was the case, for example, in the Guatemala rural training project, where the Bank role in re-

designing the project and assisting with contracting of new consultants was critical for getting the project on track.

**Box 3.2: Case of Good Effectiveness: Bolivia Labor Training Program**

The Bolivia Labor Training Program was one of the few projects for which impact evaluations were conducted (see Section B). This project contained many of the elements of the core HRD strategy and the evaluation demonstrated that the project was highly effective in meeting its objectives and had a positive impact in each of its core components. In the enterprise-based training component aimed at SMEs, 76% percent of participating companies reported that the training had helped them to increase their income. Companies covered 52% of the cost of the courses through the matching grant program, and 74% said they would continue to invest in training.

The youth training component also had a positive impact: 55% of the youth were employed following participation in the program. Most importantly, this rate of insertion was significantly higher than the 39% of youth employed in the control group. In the component on strengthening the training supply, the project only provided technical assistance to half of the target number of trainers, but it did establish a registry of providers that is recognized in the market today.

### **3. Efficiency**

- 3.24 **Results in terms of efficiency were mixed for the HRD projects. On average, ratings of high or medium high efficiency were given to 53% of all projects at the time of project design, 35% during execution, and 48% ex-post.** The dimension of efficiency looks at the way in which inputs are used to produce expected outputs and trends in the relationship between inputs and outputs. This includes a review of the planning that occurred during project preparation, the level of previous experience of the executing agency, delays in execution, and changes in resource allocation from what was planned.
- 3.25 **Detailed planning was carried out for most of these projects, but financial projection was not always present in this planning.** About 75% of the case studies had detailed descriptions of tasks, resource needs, budgets by components, and terms of reference for key consultancies developed during project preparation. Detailed timetables were available for 67% of the cases. However, only 44% of the cases had detailed budgets for each product. Approximately 37% of the cases apparently prepared financial projections, but the evaluation team was not able to review the quality or depth of these projections in most cases. Despite such planning in the design phase of projects, many of the case studies found inadequate planning led to obstacles during project execution. Specific problems included the lack of a comprehensive action plan, inadequate logical frameworks, and complex execution structures. The approach and depth of detail of logical frameworks varied significantly across projects.
- 3.26 **The innovative nature of these projects meant that adjustments were needed along the way, but appropriate technical expertise was not always available for supporting these decisions.** In some cases, this resulted in changes in resource allocation that did not always support the technical integrity of the project.
- 3.27 **Inefficient use of resources was noted in a few projects where extensive investments were made in the infrastructure of training institutions or in many others where projects financed similar products such as information**

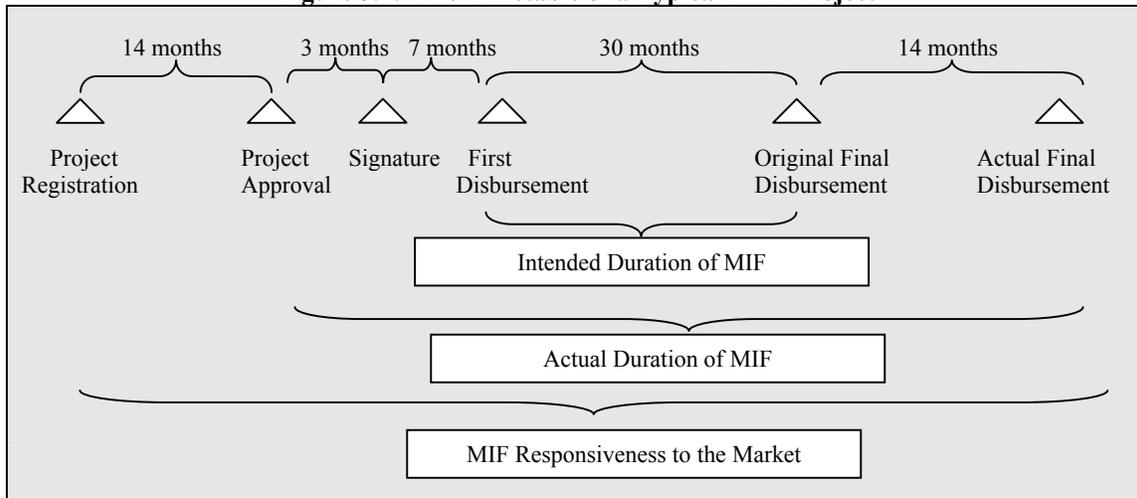
**systems that would assist with project monitoring.** An illustration of the first is the Uruguay Forestry Sector Training project, where MIF financed equipment purchases for one of the executing agencies, but this equipment is not used extensively today, since the training is done mostly within forestry companies. This type of investment did occur in a few projects but overall MIF HRD projects tended to support innovative curriculum development and on-the-job training, rather than building up physical infrastructure within a training institutes. Also, since cross-fertilization was not envisioned in project design, projects took on a proprietary approach to their products and wanted to charge other MIF projects that requested them.

- 3.28 **Another important element of efficiency is the timely execution of projects. The majority of the HRD projects experienced delays.** The activities where delays occurred were the contracting of consultants, providing of counterpart funds, meeting requirements for first disbursement, and agreeing on project adjustments.
- 3.29 **Completed projects in this group had an original execution period (from contract signature to original disbursement date) of an average 37 months, but the actual execution period was 52 months. The extension period for completed projects was on average 14 months.**<sup>68</sup> An analysis of the average time taken for various steps in the project lifecycle reveal where delays occur. For the full group of projects, an average 3 months passes from approval to contract signature, 4 months from signature to eligibility for first disbursement, and 3 months from eligibility to actual first disbursement. 14 months pass from the time a project is registered and its approval. See Figure 3.1 for a summary of the project lifecycle.
- 3.30 **The time taken for projects to go from approval to first disbursement did decline over time, from an average of 12 months for projects approved between 1994 and 1996, to 9 months for projects approved beginning in 1997.** The greatest saving in time was from the time of eligibility to receipt of first disbursement: from 6 months for projects approved between 1994-1996, to only one month for projects approved between 1997-2002. The period from signature to eligibility for first disbursement actually increased during this time frame, from 2 months to 5 months, and the period from registration of the TC to approval also increased from 10 months to 16 months.

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<sup>68</sup> Improvement was made in this area over time: completed projects that were approved between 1994-1996 were extended on average 18 months, while those approved between 1997-1999 were extended 8 months.

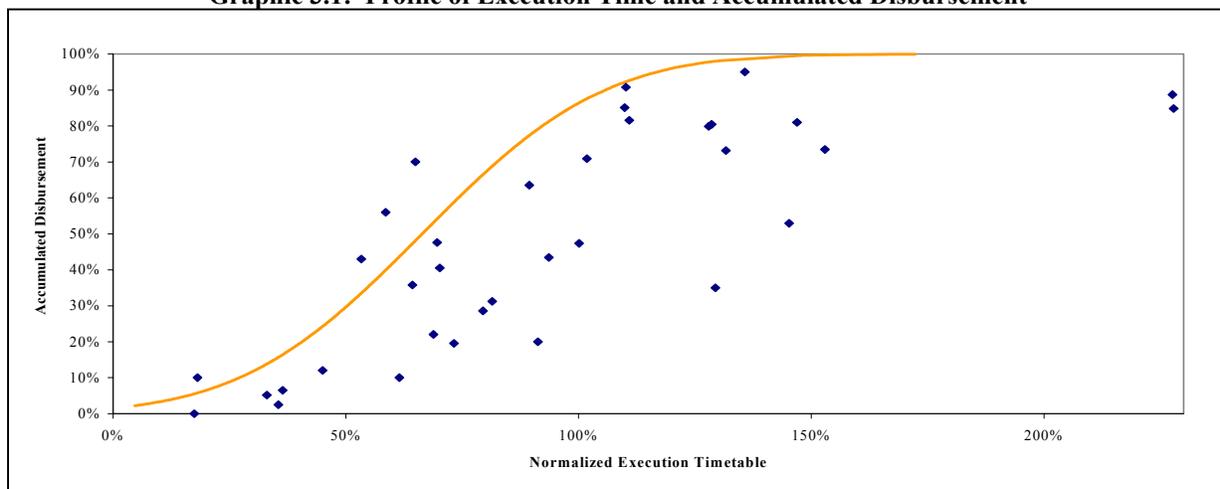
**Figure 3.1: The Timetable of a Typical HRD Project**



3.31 **The ability of executing agencies to manage the administrative procedures of the MIF and Bank varied.** In some instances, particularly where the executing agency had limited experience, difficulty with the administrative procedures led to delays. This was the case for example, in the Brazil Basic Skills Certification Project and the Mexico Street Youth Training.

3.32 **In terms of disbursement, an examination of the rate of disbursement of HRD as compared to the execution timetable of the whole MIF activity shows that HRD projects were well behind the trend for the MIF.** In Graphic 3.1 below, the curve represents the average disbursement cycle for the MIF projects in execution as of March 2003, while the dots represent HRD projects currently in execution. About half are significantly below the curve. The outliers come from all categories of projects.

**Graphic 3.1: Profile of Execution Time and Accumulated Disbursement**



### **Box 3.3: Efficient Execution: Skill Standards in the Tourism Industry in Brazil**

The MIF project to develop Skill Standards and Certification in Brazil was approved in 1998 and executed by the Instituto de Hospitalidade (IH). A private non-profit institution, IH was established at the initiative of private companies, but from the onset integrated the public sector and workers, as well as employers, in order to have a representative Board of Directors. IH is respected within the industry as an independent resource supporting tourism growth. It had previous experience with large grants, though not with the IDB. For execution of this project, a coordinator was brought on board who had extensive experience with certification programs and the management of large projects.

Integrating the project into the operations of IH, the project coordination unit applied a business-like approach to project management and met all project goals implementing the project without any delays. The project was signed on November 29, 1998, and in less than two months was eligible for first disbursement and received the first disbursement exactly two months after signature. The project was completed within its original execution time period of 42 months. This was one of only 19 projects (25%) (excluding cancelled projects) that did not require an extension. No significant reallocation of funds was made during project execution. The project was able to take advantage of the exchange rate to augment the local resources at its disposal and exceed project goals.

### **Box 3.4: Poor Planning and Complex Execution: Rural Training Project in Guatemala**

Lack of investment in human in capital in Guatemala has been particularly acute in rural areas where 63% of the Guatemalan population resides. The MIF received proposals from several training institutes to support their existing training programs in rural areas. A project was designed that worked with three institutions as co-executing agencies, with the objective of developing a new curricular methodology and training trainers so as to have a broader impact than simply supporting existing programs.

The complexity of executing a project through three co-executors based in different areas of the country with cultural, religious, and language differences, was not taken into account in the design phase. Although the project document identified incompatibility of the executing agencies as a risk, it did not adequately address the risk. In addition, none of the three agencies had previous experience with the MIF or other multilateral agencies, though they did have some experience with bilateral donors. The inexperience of the executing agencies and the difficulties faced in coordination led to significant delays. Seven months passed from signature of the contract to first disbursement. An extension of 25 months was required in the project execution period, extending it from 42 months to 67 months. Administrative procedures posed obstacles in the execution. Two investments were made that resulted in inadequate products that needed to be repurchased. The Bank intervened to assist the executing agencies in creating short lists of appropriate consultants for the recontracting of both consultancies.

## **4. Innovation**

### **3.33 Innovation has been identified by the MIF as a core element of its programs.**

The evaluation of this dimension looked at the extent to which MIF HRD projects introduced concepts or project strategies that were innovative to the region or a particular country or sector. Innovation in MIF projects was also demonstrated in terms of the amount of inquiries the project attracted from outside entities, the degree of imitation by others or its adoption into the “mainstream.”

### **3.34 The HRD projects were found to be highly innovative, with 81% of the projects evaluated rated as high or medium high in terms of innovation at the time of project design.** In each area of intervention, MIF HRD projects introduced innovative projects. In the area of training, the introduction of demand-oriented training and building of a competitive training market were innovative components of many training projects. The projects that aimed at comprehensive reform of training systems were also quite innovative. Anecdotally, several labor economists that follow the region closely have noted

that today many of the concepts introduced by the MIF over the last ten years have become a part of the dialogue on labor policies and Ministries of Labor today have a greater understanding and openness to these concepts than they did ten years ago.

- 3.35 **Skill standards and certification was an innovative concept in OECD countries in the 1980s and was new to the LAC region. MIF has played an important role in moving this innovation forward, as the primary donor supporting these projects in the region.** Skills-based training has become mainstream and many training institutions today are converting their curriculum to competency-based modules. The concept of labor certification has received interest from many countries and requests are constantly coming into the MIF from public and private entities across the region interested in imitating the skill standards projects.<sup>69</sup> Nevertheless, the adoption of the systems within private industry to date has been slow. The firms more likely to prioritize skills standards are in service-oriented sectors such as tourism and banking where revenue is directly linked to quality of services provided by employees and firms operating in competitive export markets such as mining.
- 3.36 **A key factor that stands out for projects that have succeeded in introducing an innovative concept that catches on within the mainstream is the level of involvement with the productive sector from the time of project design and through execution.** Another characteristic of successful innovation was the introduction of new training techniques in a context where the institutions involved were prepared to undertake the changes associated with the innovation. On the contrary, when an innovative idea does not come from the executing agency, or that agency is not quite prepared for the implied change, the innovations are not usually sustained. Often institutions approached MIF with requests for traditional training programs, and the MIF worked with them to develop a more innovative program. But in several of these cases, the executing agency never really lost their focus from the originally proposed idea.
- 3.37 **A challenge for projects was turning the innovations into mainstream concepts adopted by others.** Projects rated high or medium high in terms of innovation represented 53% of projects during execution, and 47% ex-post. Each category of projects followed a similar pattern of ratings, with skill standards having slightly higher ratings as a group. Sustainability of projects as well as dissemination of project results influence the extent to which projects were able to provide a demonstration effect that led to others adopting the innovation. The half of the HRD projects that did rate highly ex-post developed products and services that were replicated by others. These included, among others, the innovative approach to youth technology training in Trinidad and Tobago (see Box 3.5), online technical training for students and businesses in Peru, skill

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<sup>69</sup> For example, in November 2002, active project requests were under consideration from Paraguay, Ecuador, and a regional project in Mercosur.

standards systems taken on by additional sectors and national actors in Brazil and Chile, small business training focusing on supplier groups for large companies adapted by additional business groups in Colombia, pulp and paper industry standards system developed in Colombia being adapted in Mexico, and a series of programs of interchange and pilot innovative programs in the Central America Labor Modernization program taken on by the participating Ministries on an ongoing basis with additional financing following the MIF grant. These examples highlight the impact MIF has had, and its remaining potential, to pilot and disseminate innovative ideas in the region.

**Box 3.5: Innovative Curriculum Draws Attention from other Countries: Technology Training for Youth in Trinidad and Tobago**

In the early and mid-1990s, Trinidad and Tobago faced high unemployment, reaching 45% among youth. In order to assist in mitigating the costs of adjustment while also better preparing the workforce for the newly-emerging private sector, the MIF supported the development of a high-tech training program. The project, executed by Service Volunteered for All (SERVOL), had the objective of providing training in technology skills that were being demanded by the marketplace to low-skilled youth between the ages of 16 and 20.

The curriculum designed under the MIF project contained a number of innovations and has been replicated by other countries interested in introducing technology to disadvantaged youth. The curriculum was accessible to the educational level of its target group and integrated life skills training. Another innovation for the country was the use of computer based training programs which allow students to review the material covered and preview the upcoming lessons.

Additional innovations were added during project execution through a system of feedback and ongoing interaction with the private sector through evaluations from employees, Businessman Seminars and each Center's 'education board.' Numerous organizations throughout the Caribbean as well as one in South Africa and another in Ireland have been interested in SERVOL's methodology and training techniques. NEWLO in Grenada is just beginning to add a computer training program to its US\$1,500,000 project. CARE in St. Lucia and YEAST in Bahamas are also in the process of developing similar programs.

## 5. Sustainability

- 3.38 The sustainability dimension examines the extent to which the goods or services produced through the MIF projects will be continued after MIF funding ceases. True sustainability most often means that the projects are continued even beyond the scope of the project's executing agency, but in many instances the sustainability does depend on the efficacy of the executing agencies. Important factors influencing sustainability include the process through which the executing agencies are selected, their level of commitment to the projects, and the extent to which the services generate sufficient financial resources for their continuance.
- 3.39 **Overall, sustainability has been achieved for just under half the MIF HRD projects. Only forty one percent of the projects were determined to have high or medium high sustainability upon project completion. In contrast, 55% were rated highly ex-ante and 56% during execution.** At least half the projects did select executing agencies that for the most part had experience relevant to the project and the majority of agencies maintained high levels of commitment and dedicated resources. Many agencies faced considerable

- challenges in institutionalizing the projects and most importantly in securing means of financial sustainability.
- 3.40 **One characteristic of projects with high sustainability is that the executing agency incorporated the project into its own institutional objectives and activities.** This allowed for institutionalization of the program and greater likelihood of continuation than cases where a separate project coordination unit was established, entirely staffed by consultants. Positive examples of this include the labor union training executed by DIESSE in Brazil, the SME Management Training executed by the University ICESI in Colombia, the labor relations projects at the Catholic University in Uruguay (See Box 3.6), and the displaced worker program in Chile executed by the Ministry of Labor.
- 3.41 **Sustainability can also be achieved through the continuation of the services or products without their institutionalization within the executing agency.** An example of this is the skill standards project in Chile. The Fundación Chile executed this project, which developed a pilot in several sectors and laid the groundwork for a national system. The experience and knowledge developed by Fundación Chile through the MIF project are now being leveraged in the design of a national system. Still, transference of a project from one institution to another without broader interaction and co-ownership of the process is not always successful, as evidenced in the case of the Peru displaced worker program (see Box 3.7).
- 3.42 **There was no uniform process for selection of executing agencies.** Furthermore, no information exists about requests for funding received by the MIF and decisions made on which were accepted and which rejected. In almost all cases the agency was selected without any competitive selection process. The few exceptions founded in the evaluation were the Ecuador Displaced Worker Project and Regional Management Training Project. In both these instances MIF issued Requests for Proposals to select the executing agencies. For other projects, executing agencies either approached the MIF or were identified through a short list selection process or inquiries by MIF as to the appropriate institutions for a certain type of project. The factors used in analyzing the capacity of executing agencies were primarily the institutional capacity and previous experience.
- 3.43 **Problems of building sufficient demand for innovations within the marketplace, discussed in Section A.1 above, influenced the sustainability of projects.** Projects that were ambitious in scope and designed without adequate diagnostics of market needs and demonstrated commitment from the key stakeholders at the time of design, had a difficult time generating a demand for services and thus sustaining the project.
- 3.44 **The lack of sustainability was largely the result of poor financial sustainability.** Only 30% of projects had financial viability for continuing to provide the project services. Projects have had institutional and technical support in most cases, but not the financial resources or capacity to generate sufficient

income to sustain activities following the MIF grant, which also reflects low market relevance, as discussed above. As compared to the low financial sustainability, 85% of projects had high viability in terms of institutional capacity and 70% were rated highly in terms of having adequate personnel to support the project.

- 3.45 **MIF HRD projects often took sustainability into consideration during project design and included mechanisms for sustainability in the projects, but many of these were ineffective. Several projects called for cost recovery schemes.** These included the charging of fees for services and the development of rotating funds. As discussed in section A.1 above, such mechanisms were new to many of the executing agencies and different from traditional donor approaches. Not all projects ended up charging sufficient amounts to cover costs. Of the 25 case studies, only a quarter were currently covering their costs and half of them needed to increase their prices by more than 50% in order to cover costs. Those that did cover costs charged for services from the beginning and were meeting specific needs in market niches with capacity and willingness to pay. A lesson that emerged from several projects was that – even though a level of subsidy is needed in the beginning of innovative projects as incentive – a willingness to pay among beneficiaries needs to be demonstrated from the outset of a project and that excessive subsidy up front creates expectations that are difficult to change.
- 3.46 **Another mechanism for sustainability introduced into many projects were the creation of advisory councils with a broad range of public and private stakeholders to guide the project and also facilitate increased ownership of the project during its execution.** These were often either not established or functioned on a very limited scale with little impact. The reasons for problems with the councils varied. In several cases, political dynamics between the various members of the council influenced the participation and effectiveness, as well as the ability of the executing agency to convene the groups. While the councils had, most of the time, the right goals, the reality of participatory processes and multi-stakeholder decision-making is complex and requires additional work to build commitment and inclusion beyond the convening of a council. Commitment from participants as well as their “buy-in” to the project and process is important from the outset, as are clear descriptions of responsibilities and the role of the council and its members. Success factors from one of the projects that used multi-stakeholders effectively, the Brazil Tourism Standards project, included a history of collaboration from incorporation at the institutional level of diverse actors (public, employer, worker) for example through the Board of Directors and the independent nature of the executing agency which was respected by the various agencies. Furthermore, the various actors were not only members of an ad-hoc advisory and decision-making committee, but were engaged in very specific ways in the project itself.

### **Box 3.6: Strong Institutional Support Leads to Sustainability: Labor Relations in Uruguay**

As Uruguay's economy became more integrated into the global marketplace, modernization of labor relations was identified as an important step to contribute to the economic and social development of the country. Labor relations had a history of being highly conflictive, and this affected productivity and investment. In 1994, the MIF approved a project executed by the Catholic University (UCUDAL) to modernize the labor relations system through a process of training, research, and dissemination.

Although maintaining a distinct department that manages labor relations, the University is fully supportive of the program and has a vested interest in its continuation. UCUDAL has incorporated the technical services provided under the project as a new line of activity. Two key staff from the executing agency are now employed by the University and the database on labor relations (RELAB, with more than 1,300 registries) has been incorporated into the University library. The institutionalization of the services developed under the project is thus quite high. 100% of the services developed under the MIF project have been maintained. A high quality technical team has continued to be involved in the project and UCUDAL has developed a strong reputation in the market as a specialist in labor relations.

### **Box 3.7: A Case of Sustainability not Achieved when it Required Transferring to a Separate Institution: Displaced Worker Project in Peru**

When the MIF wanted to fund a project to support the retraining and job placement of workers displaced from privatizations in Peru, it sought a private sector institution to serve as the executing agency. A short list of candidates was identified and reviewed by the project team. The principal factors in selection were the experience and capacity of the institution to manage a large-scale project funded by a multilateral donor (the project was US\$7 million). A prominent university, ESAN, was selected.

From the outset the project anticipated the transfer of the methodology and project experience for continuation of services to future displaced workers. During project execution, it was determined that the transfer would be made to the Ministry of Labor. A representative from the Ministry spent time at the executing agency during the final stages of the project. Upon project completion, ESAN transferred files to the Ministry of Labor.

Despite these efforts, the transfer to the Ministry was not effective. Files were somehow not able to be used, in part due to computer problems. The transfer was so limited that when the Ministry did initiate its own services for displaced workers, it developed a new program, with very little learning from the MIF-funded experience. This highlights an important lesson for the MIF that project continuation requires ownership and learning by the appropriate institutions during the process. In this case, ESAN is not in the business of providing the type of services developed under the project.

## **6. Additionality**

- 3.47 **The evaluation found high or medium high additionality in 63% of projects at the time of design, less during execution (46%), and even less ex-post (44%).** Additionality measures the degree to which MIF resources were instrumental in achieving the expected results of the project. This includes MIF's contribution to the design of the project and also the extent to which this additionality went beyond this project to have a broader impact. HRD projects had relatively high additionality in the design of projects, but they did not do as good a job facilitating cross-learning during execution or passing lessons on to other projects ex-post.
- 3.48 **At the time of design, MIF did bring considerable technical expertise and knowledge of international best practices to the design process.** This led to greater innovation and reach of projects (see one example in Box 3.8). In terms of financial additionality, 80% of the products supported by MIF projects had a low probability of being obtained without MIF funding. Another additionality MIF brought to projects was the union of several projects and executing agencies

together. A positive example of this unification of agencies is the El Salvador Private Training Consortium where the MIF brought together several training providers with different expertise and capacity, under one strong executing agency that maintained objectivity and coordinated the project. Other projects ran into varying degrees of problems when projects were unified, particularly when projects were implemented by co-executing agencies.

3.49 **The MIF undertook some efforts with this group of projects to facilitate cross-learning, through seminars and studies carried out for the HRD group of projects.** The first was a seminar on displaced workers in 1996 that brought the MIF projects operating at that time together to share experiences. Several international seminars were funded within or as part of the preparation of skill standards projects. Independent studies to identify lessons learned for particular groups of projects were contracted by the MIF in the areas of tourism, labor reform, regional management training, and skill standards. Despite these efforts, the evaluation found that more work is needed in this area.

3.50 **Coordination and cross-learning between projects was limited overall and valuable opportunities for learning were lost.** Sixty percent of the activities within the projects studied had a low level of interaction with similar projects. Half of the MIF projects did not experience any coordination during execution. (See Box 3.9). An area where opportunities for additionality were not optimized was regional projects. While there are some exceptions, such as the Central America Labor Market Modernization project where substantial interaction occurred between participating countries, many regional projects were executed with relative independence from each other. The role of supervision and coordination of regional projects has an important influence on the extent to which additionality is achieved. When projects are implemented in a coordinated fashion by one agency, more synergy is likely. When there is no clear focal point for coordination of the regional projects, each will tend to be implemented and monitored independently within each country.

**Box 3.8: Positive Additionality: Labor Market Modernization in Central America**

In 1997, the MIF was approached by the US Agency for International Development (USAID) with a request that the MIF support the development of a regional labor market initiative in Central America. When MIF was brought into the process, it contributed its expertise in labor markets to design a project that worked to improve the functioning of regional markets while strengthening the protection of core labor standards.

The executing agency for this project was established within the Secretariat for Economic Integration of Central America (SIECA). While MIF worked together with USAID and SIECA in the design of the project, MIF brought considerable additionality to the design process, contributing many core design ideas. These included the introduction of pilot projects that introduced new approaches to demand-oriented training, occupational health and safety, and labor standards. The project also involved extensive dialogue on labor issues, reforms and activities to strengthen the capacity of the Ministries of Labor, such as the development of a labor information system. Given the innovative and ambitious nature of the project, the MIF was more involved than normal in reviewing the selection process for the Project Coordinator.

MIF involvement in this project had a significant catalytic effect. Labor issues are now incorporated into the free trade agenda and the Ministries as well as SIECA are better prepared to participate in those debates. SIECA has already obtained funding to continue the project. The Andean Region has requested support in developing a similar project. It is unlikely that a regional effort would have been made to increase the social dialogue around labor policies without MIF support. The various pilot studies are also unlikely to have been carried out without MIF involvement.

### Box 3.9: Missed Opportunities for Cross-Learning: Labor Relations Projects

The MIF funded six labor relations projects between 1994 and 2000, but these projects operated in isolation from one another. This is an area where the MIF brought considerable additionality to project design in each individual case, but it did not provide mechanisms for interaction or coordination during project execution, thus limiting the catalytic effect of MIF investment in this area.

One of the projects was approved quite early, in 1994, while the others were all approved between 1997 and 2000. The first project was in Uruguay, where the MIF contributed an international perspective to the research conducted under the project, thus expanding and improving the quality of the labor relations system and services developed in Uruguay. But as other projects were approved in this area, none approached the executing agency in Uruguay to learn from their experience. And while several projects were operating simultaneously, the MIF did not facilitate any seminars or other means of coordination among the projects.

## 7. Evaluability

- 3.51 The dimension of evaluability examines the extent to which projects were designed to yield measurable results. Questions analyzed included whether the indicators were appropriately defined, an adequate level of resources budgeted for evaluation, and whether evaluations were conducted in a timely fashion and provided valuable lessons learned that were later disseminated.
- 3.52 **The HRD projects tended to address evaluability of projects very proactively in project design, but the evaluations were not always carried out or were done in a more limited fashion than anticipated under the project design.** Most projects had sufficient resources allocated to evaluation and anticipated in many cases the need for project monitoring and ex-post evaluations to measure project impact. The evaluation rated 65% of projects as high or medium high for evaluability ex-ante. Among the 25 case studies, 84% did have intermediate evaluations, but only 17% had final evaluations, despite the fact that about half the projects did call for final evaluations and allocated resources for that purpose.
- 3.53 **Several projects re-allocated resources designated for evaluation to finance other activities reflecting a lack of understanding on the part of many executing agencies, and Country Office staff, of the importance of evaluations in the MIF projects.** Executing agencies tended to see evaluations as one more contractual obligation and not as a learning tool. This attitude was reinforced when the Bank was responsible for hiring the evaluation rather than the executing agency. Almost no projects established participatory evaluation systems where ongoing monitoring and evaluation allowed for feedback loops that facilitated learning during project design. One of the few exceptions was the Colombia Displaced Worker Project in which the evaluation team was hired at the beginning of the project and participated in periodic meetings, providing feedback to the executing agency. Such schemes were envisioned in several projects but not implemented. A majority of project documents noted that one of the first consultancies to be hired under the project was an evaluation expert who would develop the project indicators and establish a monitoring and evaluation system. This was rarely done.

- 3.54 **Although the HRD projects tended to identify a comprehensive evaluation framework, they did not develop extensive indicators at the time of project design.** This task was often stated as part of the role of the evaluation consultant to be hired at the beginning of the project. Of the indicators that were identified in project documents, only 56% identified clear target goals, 37% had baseline data, and none established benchmarks.
- 3.55 **It was also found significant disparities between the self-reported ratings quoted in the PPMRs system and those assigned to each project over the course of this independent evaluation.** Out of the comparison of rating of 46 projects for which we have both rating assigned by OVE and by the PPMR system, the evaluation found that regarding Development Objectives (effectiveness), PPMR rating are over-optimistic in almost half of the cases, casting a doubt on the reliability of the self-reported data. The gap between the two ratings is wider in regards to implementation progress (efficiency), where the evaluation rating were different for 63% of the projects, with OVE giving a lower rating than the PPMR system in 42% of the cases.<sup>70</sup>

**Box 3.10: A new Model for Evaluation and Learning: MIF Project with IYF**

In 2001, the MIF approved a youth training project with an entirely new executing mechanism. The Youth Employment Project, executed by the International Youth Foundation (IYF), provides a US\$10 million grant that IYF will use to select, fund, and supervise 40 youth training projects throughout LAC. IYF is responsible for reviewing and selecting grantees; it presents pre-selected grantees in groups to the MIF for 'no objection' and then those approved are reviewed by a Board for final selection. Evaluation and learning are core to the project and as a result the project is developing and testing a new model for improving project evaluability.

The project addresses the problem of high youth unemployment in the region and the lack of adequate training for youth in the areas of information technology. There are two components: (1) Challenge Grants; and (2) Learning and dissemination to document lessons learned and promote best practices derived from the challenge grants. The Learning and Dissemination component will develop and disseminate experiences from the grants through the design and delivery of conferences, seminars, presentations, publications, research on issues of youth employment and information technology, electronic media, and through internal project evaluation.

Learning takes place in part through ongoing interaction with prospective grantees. The monitoring system will provide further communication with the grantees and final beneficiaries. The monitoring allows IYF to capture information and get reports on any combination of fields relating to each project. In addition to ensuring learning among the project grantees, the project itself has established a comprehensive evaluation system. A mid-term and final evaluation are scheduled as are two internal evaluations to examine key operations of the Challenge Grants. Additionally, IYF will contract consultants to perform a final, independent evaluation of all Challenge Grant beneficiary NGOs. All indicators for the project as whole have baselines and goals. Impact indicators, baselines and goals are in the process of being developed for the individual NGO projects. A total of US\$350,000 has been budgeted for monitoring, evaluation and auditing of the program.

<sup>70</sup> It should be note that OVE utilized similar tough not exactly the same concepts to rate projects. Effectiveness is similar to achievement of Development Objectives (DO) utilized in the PPMR. Efficiency is similar to the Implementation Progress (IP) utilized in the PPMR, as the strongest determinant of efficiency is adherence to the time schedule.

## **B. Summary of Impact Evaluations**

- 3.56 **Evaluations that measure the impact of a project and the extent to which it met its development objectives are important for every type of project, but in the case of pilots, the need is particularly great.** As noted in Chapters 1 and 2, the impact of active labor market programs has been mixed in studies around the world. Furthermore, in the case of the MIF, projects were testing innovative approaches and thus evaluation of the extent to which each approach met its goals is critical for the learning process and demonstration effect expected from a pilot program.
- 3.57 **A total of six impact evaluations were collected by the evaluation team.** These were for the following projects: Chile Displaced Workers (ATN/MH-4761-CH), Uruguay Central Administration Modernization (also a displaced worker program, ATN/MH-4628-UR), Peru Displaced Workers (ATN/MH-4906-PE), Bolivia Youth Training (PROCAL, ATN/MH-5130-BO), Uruguay Youth Training (ATN/MH-4525-UR), and Brazil Youth Training. In addition, OVE contracted an impact evaluation of one of the components of the Peru Fisheries Training Project (ATN/MH-5172-PE). Additional impact evaluations might exist, but no system exists for collecting them or tracking where they were conducted. The seven impact studies reviewed reveal a mixed picture in terms of the impact of the HRD projects and the quality of the evaluations undertaken. In Bolivia, a comprehensive methodology was used and found the project had a positive impact (see Box 3.2).
- 3.58 **In Chile, the impact evaluation found that the project had positive results for the beneficiary population, but the impact of the program when compared to control groups and other investments was limited.** The program far surpassed its goal of reaching 1,000 workers and provided services instead to 4,500. Sixty five percent of participants were fully employed following participation in the formal sector, 18% were self-employed, and only 21.4% were unemployed. In comparison with a control group, the benefit of the program was not statistically significant. However, the evaluators note that deficiencies in the control group might lead to an under-estimation of the project benefit. The evaluation further notes that the cost was much higher than other training and job placement programs in Chile, particularly the youth training. This difference in cost is largely due to the personalized development plans used for each worker.
- 3.59 **The Uruguay displaced worker project had also a very positive impact. Fifty-six percent of program participants were employed in formal sector jobs and 6% were self-employed compared to 32% insertion rate in the control group.** The control group in this case was comprised of displaced workers who had chosen not to participate in the MIF project, and so was biased toward those who were at retirement age (more than 40% were over 60 years old).
- 3.60 The Peru displaced worker project did not conduct an impact evaluation, but the Ministry of Labor in its preparation for developing another displaced worker

- project, did an impact study on a sample of 314 workers including 8.6% who had received reconversion services, presumably from the MIF project. **Of those who had participated in a displaced worker program in this country, 67% were employed, as compared to 47.5% who had not participated.**
- 3.61 **In the Brazil youth training project**, the integration of impact studies into the continuous methodology of the program was one of the MIF project goals. This was not achieved, but one impact study was implemented during the course of project execution, and found that **28.5% of participants were employed following the training as compared to the employment rate of 26.8% for the control group.**
- 3.62 **In Uruguay, the final evaluation of the Youth Training Program, *Opción Joven* (known today as PROJOVEN), illustrated a favorable impact upon its participants.** First, participants tend to find employment more quickly than the youth in the control group. Thirty percent of the participants found their first job within five months of completing their training, compared with only 17% in the control group. Also, the duration of unemployment is 50% higher in the control group. Second, the trained youth received salaries that were, on average, 20% higher than the youth without training. Third, participants were 67% more likely to be employed. Finally, there was also a positive impact on the quality of jobs of participant youth.
- 3.63 **The Peru Fisheries project** actually involved two components addressing entirely different areas of the fisheries sector – one of these was cancelled but the one that continued and was evaluated was the component of training artisan fishers and fish processors in proper food treatment techniques. The OVE evaluation team found the project had surpassed its objectives and the executing agency was receiving increased demand for the services developed under the project. An impact evaluation was thus contracted to determine the extent of the project impact. **Despite apparent success of the project, the impact on the income and employability of participants was limited, primarily due to economic factors affecting the fisheries market.**

## IV. CONCLUSIONS

### A. Summary Evaluation of MIF HRD Projects

- 4.1 The overall objective that the MIF set out to achieve with this group of projects was the introduction into LAC of new approaches to labor market policies and human resources development that would increase the productivity of the workforce and improve the functioning of labor markets. This strategy was consistent with the overall context of economic change, labor market transformation, and trends in human resources development occurring on a global scale.
- 4.2 **The evaluation concluded that the MIF had contributed in advancing labor market modernization in the region**, especially in those cases where MIF projects were well-designed to pilot innovations and disseminate those innovations. Projects resulted in new models of human resources development that more effectively link skills development to the needs of the productive sector. The intent of the HRD program met a relevant need for reform and one that continues to exist today. Labor market modernization and human resources development continue to be important areas for investment and reform in LAC. The core needs in this area identified in the MIF's HRD strategy continue to be relevant, although the specific context has evolved in each country, as countries have made varying levels of progress over the last 10 years.
- 4.3 **The MIF role in piloting remains essential since the reforms and modernization needed in labor market programs are still highly innovative for much of the region.** As the IDB also increases its involvement in this area, the MIF provides an important tool to complement Bank intervention, pilot new approaches, and enhance the private sector orientation of labor market policies and projects.
- 4.4 **As the MIF goes forward in this area, it's past experience with HRD projects provide important lessons to be taken into account. Despite the importance and relevance of the overall strategy, about half of the HRD projects did not achieve the full outcomes expected, with important variation among projects.** Most of the challenges confronted by the projects were general problems that relate to development projects or MIF operations in general. Some of the issues that can be related to the specific HRD content of the projects include the challenges of implementing highly innovative projects that require significant resources from the private sector in order to develop effectively and be sustained. The MIF was working in this area within a context where there were low private involvement and long-standing practices contrary to the new models being introduced, such as the dominance of the public training institutes and the historical weakness of the Ministries of Labor in many countries.

- 4.5 **The appropriateness of design for the specific country and sector context was one key factor that influenced success across the various evaluation dimensions.** MIF was implementing highly innovative programs and often took the lead in project design, not always ensuring adequate ownership, understanding, and commitment from the executing agencies, who were usually eager to take on new efforts but were not always prepared to do so. The institutional context in a broad sense is important for the types of innovations being introduced. Another factor influencing project success is whether their objectives and activities were realistic in scope given local realities and the time frame of projects.
- 4.6 **In terms of types of projects, although variation existed within each category, the evaluation did find that the MIF was more effective with projects that were specifically piloting the introduction of innovative changes to HRD practices, drawing on international experience.** These included the labor relations, labor intermediation, occupational health, modernization of labor ministries projects, and well-targeted innovations in training programs and systems. Skill standards projects made an important contribution advancing experience in this field in the region, but more time is needed to determine the long term impact and effectiveness of these interventions. The training projects that were specifically geared toward needs of the private sector, especially those workforce development projects led by business associations, and those that were focused on training system reform introducing new approaches to training that were more demand-driven and linked to employment were relatively effective. Training projects that did not have clear institutional commitment to adopting and sustaining innovative approaches or lacked sufficient productive sector involvement to succeed in linking training to employment were less effective. Projects aimed at reform had mixed results, mainly because they were ambitious and the institutional environment was not yet prepared to undertake the reforms as fully as anticipated in the project design.
- 4.7 **Several key achievements of the MIF in this area are worth highlighting.** The HRD group of projects were fairly **relevant** as a whole, and were at the cutting edge among donors helping the region to move forward in modernizing labor market programs. The consistent presence of the MIF in pursuing this strategy throughout the region has contributed to establish a dialogue on the labor agenda. While **effectiveness** varied among projects, the group of projects as a whole has produced results ranging from growth of skill standards and certification programs, ongoing work in labor relations, improved quality of training in tourism across much of the Caribbean, and several examples of effective demand-based training that provide models for improving training systems. Projects have been very **innovative**, with the MIF making contributions in introducing new approaches to training, building incentives for employer investment in training, developing new approaches to labor conflict resolution, and supporting market-driven approaches to skill standards and certification. **Additionality** was generally high among the HRD projects, with the MIF having taken an active role in project design. These projects were unique in their emphasis on **evaluability**,

with resources designated to evaluation and a number of impact studies completed, relative to other groups of MIF projects.

- 4.8 The challenges faced by these projects largely relate to MIF and Bank operations as a whole. **Efficiency** was not optimal, due in part to difficulties with administrative procedures and insufficient preparedness of executing agencies. While some positive results were obtained, specific projects encountered problems that influenced their **effectiveness** including difficulty in building sufficient market demand and reaching project goals. Disseminating project results and mainstreaming **innovations** was a challenge for many projects. Given the innovative nature of projects, building sufficient financial **sustainability** during the lifetime of the projects was also difficult showing the limited impact on building a market for their services.

## **B. Areas of Opportunity for HRD Programming**

- 4.9 This evaluation of past MIF projects has surfaced several areas of opportunity for the MIF to harness its potential to best meet the needs in the market.

### **1. Utilization of MIF as a Laboratory for Testing Approaches to HRD**

- 4.10 **The evaluation results found that well targeted pilots maximize the impact of MIF interventions.** The MIF has been a laboratory for furthering knowledge and reforms in this field. This role is particularly important in a area such as labor market development and HRD since evidence is not yet conclusive on the most appropriate approach to be taken. Even as a growing body of research and lessons learned continue to emerge from OECD countries, debate continues on the extent to which the new approaches to labor markets implemented over the last two decades has led to cost-effective interventions or had an impact on unemployment and the quality of the workforce as a whole.
- 4.11 **The MIF has an opportunity in this field to serve as a laboratory for testing appropriate policies and approaches to labor market issues.** While continuing to implement a strategy that is based on international best practices (as it has in the past), the MIF could be much more systematic about its role as a laboratory, testing the applicability and effectiveness of these approaches in the LAC context. As countries in the region make decisions on resource allocation, MIF pilots can provide additional evidence to answer questions such as which investments are most effective for developing the human resources base over the long term. And what approach is most effective for decreasing unemployment? Raising wages? Increasing the productivity and competitiveness of local companies? Such a strategy requires a systemic approach to learning and knowledge management, discussed further below.

### **2. Readiness for reforms**

- 4.12 **Not all countries in the region or particular sectors were ready to introduce new approaches to HRD and labor market policies.** The MIF identified a right

set of issues and goals, but it pursued a very ambitious strategy that tried to introduce cutting edge of human resources development and labor markets policies in the region. There appears to have been an evolution in understanding of these issues over the last decade, so that today the region appears to be better prepared to pursue the reforms and innovative strategies supported by the MIF. A careful diagnostic of the labor market policies and practices in each country, such as suggested in the 1994 HRF Strategy Paper, needs to be undertaken to develop a strategy that is consistent with the stage of development of that country, or specific sectors within that country. The innovative nature of MIF projects implies that significant attention is needed to institutional analysis, which, if done well, should be able to detect the level of preparedness of the country and executing agency.

- 4.13 The issue of readiness is a complex one for the MIF since it is introducing innovations and its interventions are relatively small even for the dimension of the problems they intend to attack. Countries that demonstrate full “readiness” may not need the pilot innovations. The key therefore is to look at the capacity and willingness to apply innovations, with an acute focus on where MIF may provide, and develop projects appropriate to the specific context and needs of each country.

### **3. Strengthen partnerships to leverage MIF interventions**

- 4.14 **Since a key role of the MIF is to serve as a laboratory and catalyze larger scale reform through pilot projects, strong connections with institutions that can build upon MIF pilots is important. The IDB could be a clear partner in this arena.** Both the MIF and the Bank have important roles to play in supporting the Region’s efforts at modernizing human resources development and labor market policies. The amount of MIF investment as compared to that of the Bank is minimal. Yet MIF investment, if targeted effectively, can have an important impact. The MIF instrument provides flexibility, the ability to pilot new approaches, work directly with the private sector, and create demonstration effects through small-scale projects. These efforts could be most effective if coordinated with Bank strategy, so that lessons learned from pilot experiences can be built upon and expanded on a large scale.
- 4.15 **In order to maximize the impact of the MIF pilots within the Bank, the MIF could develop new types of operation.** An example could be a new type of modality for selecting projects that are designed with a link to future Bank operations or some type of concrete learning from the innovations tested by the MIF. This approach would reward those staff or divisions within the Bank willing to take on innovations and provide an incentive for thinking through the application of lessons from the MIF intervention. Other partnerships outside the Bank could also be pursued. The current project with IYF provides an example of a type of MIF partnership that seems to have a potential to leverage the MIF investment for greater impact. Partnerships could be explored with leading

institutions in the region with a stake in furthering the same goals as the MIF in the area of HRD and labor market modernization.

#### 4. Maintain strategy focus

- 4.16 As the analysis of strategy in Chapter 2 indicated, the core elements of the strategy for the HRF, defined from the outset and maintained over the years, did match key needs for labor market and human resources development, as defined in the context chapter. However, the review of projects indicated that while many projects followed the core strategy, others veered off this core.
- 4.17 **In order for the MIF to maximize its impact with relatively limited resources, it should pursue a consistent strategy focused on those areas where MIF can affect systemic change in labor market practices.** The results of the evaluation suggest that training projects that follow traditional patterns and are not designed to have an impact on training should be limited under such a focused strategy. For interventions in training, the MIF is best utilized when helping to set in place genuinely new training systems and new approaches to human resources development. Those programs should be linked to private sector demand in concrete ways. Projects aimed at training new entrants and the unemployed are important elements in the overall policy and program framework for developing a competitive workforce. But these projects in particular need to be well-designed to enhance cost-effectiveness and to measure impact of each approach.
- 4.18 **While a clearly defined strategy is important, it is also critical that pre-defined actions not limit the type of project carried out within each line of the strategy.** Furthermore, the MIF should be careful not to adapt projects to fit within a particular strategy without matching the specific context of that project. This occurred in the past, for example, with traditional training projects becoming skill standards projects by the MIF when not all were ready to implement such programs.
- 4.19 **Given that caveat, certain areas are worth highlighting that emerged from the evaluation as areas of greatest opportunity for the MIF.** These include the following:
- **Labor intermediation programs**, which have been shown to have high returns in terms of employment for the given investment. These programs also have the possibility of alleviating problems of discrimination in the labor insertion process. The increased activity in this area in recent years by the MIF suggests that several governments in the region are beginning to be more open to reform of their public employment systems.
  - **Pilot programs that support comprehensive reform and the modernization of Ministries of Labor.** These are most effectively done under a joint Bank-MIF strategy, so that the MIF is testing and laying the groundwork for reforms that can be expanded by the Bank in subsequent operations. In this area, the MIF role as a laboratory is particularly

relevant, serving as a means of testing policies and programmatic approaches.

- **Enterprise-based training**, particularly when implemented with a sectoral business association or training institute fully supported by private companies. The interventions need to have assured before hand of a key group of leading companies, particularly some with regional presence and networks of SME suppliers, willing to adopt this new schemes. The MIF experience to date with these projects has been mixed, but the opportunity for developing effective systems for employers to increase investment in human resources still needs to be further explored.
- **Skill standards certification systems are areas of growing demand within the region, but the MIF should be very strategic about future investments in this area.** Assisting training institutes in converting curriculum to skills-based training is apparently becoming part of mainstream training activities and could be pursued by the MIF where clear additionality exists. MIF intervention in this area should be carefully screened to ensure investments where there is a clearly demonstrated demand from private employers. MIF can take these projects to the next level, helping to integrate more fully into the market and building national systems.
- **Labor standards is an emerging area of interest where the MIF may want to explore new strategic interventions.** The link between competitiveness and adherence to labor standards and codes of conduct is beginning to gain increased attention in academic literature and could be explored further. As in other areas, the MIF should seek interventions that would catalyze systemic change in the way labor standards are implemented within companies or monitored by the public sector. The MIF's work in Occupational Health and Safety could provide a framework for looking at other labor standards, and is also an area with potential for continuation. This area would have a renewed interest considering the harmonization of regional standards in regional agreements (i.e. Mercosur) as economic integration deepens in the coming years.
- **Training of youth and the unemployed should be done cautiously.** Careful monitoring of project design and selection is very important to ensure MIF projects in this area are testing new models, have clear demand, and capacity for sustainability.

4.20 **Clear guidelines and a set of criteria for determining if a project is likely to meet the core strategy should also be defined to avoid misunderstandings between the MIF and the Bank, as well as with executing agencies and government authorities.** Past experience suggests that as the MIF defines a more precise strategy, it will be important to consider proper dissemination of a well-articulated strategy to ensure better adherence with it. A more focused approach to strategy has already begun at the MIF, in particular with the introduction of the clusters concept. Clusters have the potential to facilitate an

increased focus on specific elements of the strategy, greater uniformity of projects within each sub-element of the strategy, and greater learning within each cluster. However, the use of clusters thus far has not realized that potential. It is important to build upon the concept of clusters to develop a mechanism by which similar projects have opportunities for cross-learning and consistent technical support, but in such a way as to ensure project design is not overly limited by the parameters of a particular cluster.

- 4.21 **Whether through competitive bidding processes or other selection mechanisms, transparency is key in the selection of executing agencies.** Another approach to consider for staying in line with strategy is to define priority areas and then hold a public bidding process to identify appropriate executing agencies for carrying out the strategy. The MIF innovated with this approach in its Regional Management Training project, and then continued this approach with projects that helped businesses to gain accreditation under ISO. However, such an approach must ensure proper local ownership and institutionalization of programs by the executing agencies.

## **5. Focus on Effective Project Characteristics**

- 4.22 **The evaluation of the existing HRD portfolio found mixed results in effectiveness across various types of projects. Some areas of intervention emerged as requiring careful analysis to determine whether they are appropriate for future MIF intervention.** Two areas in particular fall into question based on the results of the evaluation. The first is training. MIF funding of training was found to be effective when it was closely tied to efforts to transform training systems and initiate new models of demand-oriented training that was integrated with job placement. The second area of intervention that needs to be re-examined is support to comprehensive reform of labor market policies and employment and training systems. Such reform is critical for the region and MIF does have a limited role to play in this area. Past experience suggests that reform projects are most effective when they are part of a cohesive MIF/Bank strategy and where the MIF plays a key role in piloting activities and facilitating dialogue that will provide a demonstration effect and lay the groundwork for reform. Realistic goals and timetables need to be set for this type of project.
- 4.23 **Projects were less successful where the MIF was the main originator of the project concept and in particular where the MIF/Bank project team played the lead role in project design, without ample participation from the executing agency.** Effective projects require clear local ownership of the project and readiness and commitment on the part of key stakeholders to carry the project forward.
- 4.24 **Effective projects tended to be implemented by executing agencies that integrated the project into their core operational activities and committed to continuing the project after completion of the MIF funding.** Executing agencies that were administrators of projects rather than key players who would

continue to lead efforts to implement the innovations developed under the project were less effective.<sup>71</sup>

## **6. Focus on Sustainability from the Moment of Design**

- 4.25 **Achieving sustainability, particularly financial sustainability, has been a challenge to the HRD projects.** In many projects, specific plans for sustainability were to be developed during project execution or mechanisms were proposed up front that had not yet been tested and did not match market realities. Furthermore, projects often set out in the pilot stage offering too much subsidy and setting a precedent that was not financially sustainable and that was difficult to change.
- 4.26 **More careful analysis needs to be given to determining sustainability mechanisms during project design.** In most cases, this requires obtaining more concrete commitments from private and public stakeholders in the project from the outset. Commercial market studies need to be undertaken before projects are approved. Evaluation with baseline data is also needed to improve interventions. Surprisingly, in the majority of projects that proposed the development of a market, the evaluators found it difficult to determine the size of the market that was developed through the project, type of services and players. Since HRD projects often include cost recovery, the development of financial projections during project preparation would assist executing agencies in seeing cash flow needs clearly into the future. MIF budgets currently do not capture actual organizational budgets, particularly on a product by product basis.
- 4.27 **A key point to keep in mind is that labor market reform and human resources development are areas that require public and private sector investment.** This implies the need for appropriate institutions in order for an HRD strategy to be effective over the long term. The MIF can provide catalytic support to improving HRD programs, but the employment and training systems of a country require resources and commitment.

### **C. Opportunities for general operations of MIF**

#### **1. Disseminate innovation**

- 4.28 **The way in which the learning from innovation is consolidated and disseminated is a key issue for success of innovative projects.** A key aspect of innovation is the introduction of new ideas that, once proven successful, are disseminated and become adopted broadly. In this way, the innovation has brought new approaches that eventually advance the means of solving existing

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<sup>71</sup> This point should not be confused with the administrative execution structure of the project with IYF where IYF is in fact an active player in the field and the MIF project is not only utilizing IYF to administer projects to other NGOs, but is also strengthening IYF's capacity to continue serving as a resource and support to youth training organizations in the region.

problems. But this requires consolidation of experience into a new business model or new approach to human resource development. And once consolidated the process must be disseminated. As noted in Chapter 3, several efforts were made for this group of projects to study lessons learned and bring projects together to learn from each other. But more will have to be done in this area, and the management of the knowledge acquired from one project to another should become more systematized. Thus far, MIF has been more successful at introducing innovation than at consolidating and disseminating those innovations.

- 4.29 The MIF introduced many new or incipient ideas into the region through its HRD projects. Some of the most innovative ideas that have taken hold in the region include skill standards, labor intermediation, and demand-oriented approaches to training. While there were considerable efforts at reforming national training systems by the Bank, other donors, and Governments, the MIF offered a vehicle through which innovative approaches could be more readily tested and applied outside of the public sector. Although, in most cases, it requires some kind of public support.
- 4.30 A new generation of special regional operations might need to be developed for the specific process of dissemination of proven innovations. The executing agencies and partners in those efforts should be already proven leaders and successful innovators that would be rewarded by their degree of success in the result of the dissemination process. Using these entities as platforms for dissemination and the network of people and institutions already gathered around MIF projects executed provides a unique opportunity for the MIF. Additionally, some particular features were suggested by executing agencies, such as the development of a listserv for each type of project, development of a more interactive, information-based website, funding of exchange and study tours between projects particularly in the early design stages, videoconferences between projects, and additional seminars and workshops. Ownership issues also need to be considered in this arena to ensure greater efficiency in passing innovations on from one project to another.

## **2. Enhance Monitoring and Evaluation**

- 4.31 **Enhancing monitoring and evaluation includes the need for technical supervision over the course of the project.** Since these areas are new not only to the Region, but often times to Bank staff, it is not appropriate to expect Country Office specialists to be equipped to provide all of the technical expertise needed in monitoring an innovative project. Furthermore, in countries with large numbers of MIF projects, Country Office specialists have large workloads with insufficient time for technical analysis. Their work should therefore be complemented with technical experts as well as members of the original design team. Project monitoring can also be enhanced with the use of participatory approaches to evaluation that engage project stakeholders in an ongoing learning process that provides feedback on a regular basis to the project.

4.32 **The original project team and particularly the Team Leader should be involved in the project monitoring process.** This involvement should include participation in the contracting of evaluations to provide context of original intent versus results achieved. The question of whether the Bank/MIF or executing agencies should be the ones to contract evaluations needs further review. Case studies in this group suggest that the evaluations lose their capacity to serve as a learning tool for the project when they are contracted by the Bank and viewed by the executing agencies as something externally imposed. Having the right Terms of Reference and a transparent selection process can be sufficient for ensuring objectivity of the evaluation.

4.33 **Another way to ensure better knowledge management and learning through the monitoring process is for the MIF/Bank to conduct portfolio reviews by theme to draw lessons learned across projects.**

### **3. Leverage existing experience**

4.34 **Another lesson that emerged from this group of projects that is applicable across the MIF is the opportunity to leverage the existing experience and expertise in the Region that the MIF has helped to build through past projects.** In the past, the MIF tended to turn repeatedly to international experts from outside the region to provide technical assistance to projects, but existing MIF projects have facilitated the creation of considerable expertise within the Region that should be tapped when developing similar projects in other areas. A related point is that the MIF can gain efficiency as well as cross-learning by sharing common products among projects, rather than investing in their development repeatedly.

### **4. Emphasize Institutional Analysis and Needs Assessment in Project Design**

4.35 **The need for thorough needs diagnostics and institutional analysis are key to project success.** When well done, such studies and analyses ensure project relevance, which in turn impacts the ability of a project to achieve effectiveness and sustainability. Furthermore, selection of an appropriate execution agency with proper institutional analysis ensures the right level of readiness and commitment to the project as well as the capacity of the organization to implement the project efficiently and disseminate innovations.

### **5. Rules for Eligibility, Transparency and Promotion of Competition**

4.36 **The evaluation of this group confirmed the need for more clarity on well defined criteria for the selection of projects to be financed, the process for approval and the status of applications received.** This would enhance the relationship with the Bank, reducing delays and transaction costs, particularly in an area that needs to complement and coordinate better with Bank actions to obtain better results in MIF projects. If widely known these criteria would assist

potential clients and the general public of the region in understanding what the MIF does and who can benefit from it.

- 4.37 **Very visible internal and external competition schemes to select the most suitable proposals and institutions to carry out the projects would provide a great deal in terms of innovation, transparency and visibility of MIF actions.** Additionally, a system to register all project requests, keep track of the status and assignment of responsibility needs to be established to improve transparency and promote efficiency in processing times.