

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

MEXICO

**MULTIPHASE TRAINING AND EMPLOYMENT SUPPORT
PROGRAM (PACE) – PHASE III**

(ME-L1114)

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	
1.	Annual work plan (AWP) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36718451
2.	Monitoring and evaluation plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36718305
3.	Procurement plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36735877
OPTIONAL	
1.	Annex on the one-stop window http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36718434
2.	Lessons learned: <p>“Políticas sociales y laborales para tiempos tumultuosos” [Social and labor policies for tumultuous times], http://www.iadb.org/res/publications/pubfiles/pubB-636_esp.pdf</p> <p>Latin American experience with crisis-driven labor market programs http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36722905</p> <p>Fast tracking jobs: Advances and next steps for labor intermediation services in Latin America and the Caribbean http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36718117</p> <p>¿Cómo mejorar las oportunidades de inserción de los jóvenes en América Latina? [How can employment opportunities for youths in Latin America be improved?] http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36722912</p> <p>El Estado del arte de la capacitación de los trabajadores en América Latina y el Caribe [State of the art in labor training in Latin America and the Caribbean] http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36722917</p> <p>Una visión crítica sobre el financiamiento y la asignación de recursos públicos para la capacitación de trabajadores en América Latina y el Caribe [A critical overview of financing and the allocation of public funds for worker training in Latin America and the Caribbean] http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36722922</p>

3. Loan proposals and technical-cooperation document for:
PACE I, loan 1384/OC-ME
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=428830>
PACE II, loan 1936/OC-ME
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=122224>
Complementary loan 2219/OC-ME
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35186273>
Related technical-cooperation operation ME-T1190
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36656194>
4. Sector note for the employment sector in Mexico. “Políticas públicas y mercados de trabajo: Empleos de calidad” [Public policies and labor markets: Quality jobs], IDB, 2007
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36735726>
5. Sector note for the labor sector, IDB, 2010-2012
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35349235>
6. Institutional analysis/Implementation capacity aspects (Operating Regulations).
ICAS
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36723010>
7. Program Operating Regulations
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36767174>
8. Economic evaluation
[IDBDOCS-#36736084-Evaluación Económica ME-L1114](http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36736084)
9. Program monitoring report (PMR)
[IDBDOCS-#36774107-PMR MEL1114](http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36774107)
10. AWP in MS Project
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36718361>
11. Bibliography
[IDBDOCS-#36733410-Bibliographies POD](http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36733410)
12. Safeguard screening forms
[IDBDOCS-#36731468-Anexo SPF y SSF](http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36731468)

ABBREVIATIONS

BÉCATE	Becas de Capacitación para el Trabajo [job training grants]
CGSNE	Coordinación General del Servicio Nacional de Empleo [General Coordination Office of the National Employment Service]
COLEF	Colegio de la Frontera Norte
CONEVAL	Consejo Nacional de Evaluación de la Política de Desarrollo Social [National Council for Evaluation of Social Development Policy]
DGIET	Dirección General de Investigación y Estadísticas de Trabajo [Office of Labor Research and Statistics]
DGPP	Dirección General de Programación y Presupuesto [Office of Programming and Budget]
EHPM	Encuesta de Hogares de Propósitos Múltiples [Multipurpose Household Survey]
ENCOPE	Encuesta de Nivel de Colocación y Permanencia en el Empleo [Job Placement and Tenure Survey]
ENOE	Encuesta Nacional de Ocupación y Empleo [National Occupational and Employment Survey]
FFF	Flexible Financing Facility
ICAS	Institutional Capacity Assessment System
IMSS	Instituto Mexicano del Seguro Social [Mexican Social Security Institute]
INEGI	Instituto Nacional de Estadística, Geografía e Informática [National Institute of Statistics, Geography, and Information]
INFOTEC	Fondo de Información y Documentación para la Industria [Industrial Information and Documentation Fund]
MSMEs	Micro, small, and medium-sized enterprises
NAFIN	Nacional Financiera, S.N.C.
OECD	Organization for Economic Cooperation and Development
OSNE	Oficina del Servicio Nacional de Empleo [National Employment Service Office]
PACE	Programa de Apoyo a la Capacitación y al Empleo [Training and Employment Support Program]
PND	Plan Nacional de Desarrollo [National Development Plan]
PRONABES	Programa Nacional de Becas para la Educación Superior [National Higher Education Grants Program]
SFP	Secretaría de la Función Pública [Civil Service Department]
SHCP	Secretaría de Hacienda y Crédito Público [Department of Finance and Public Credit]
SICOP	Sistema Integral de Contabilidad y Presupuesto [Integrated Accounting and Budget System]
SISPAE	Sistema de Información del Programa de Apoyo al Empleo [Employment Support Program Information System]
SNE	Servicio Nacional de Empleo [National Employment Service]

STPS	Secretaría del Trabajo y Previsión Social [Department of Labor and Social Insurance]
TESOFE	Tesorería de la Federación [Federal Treasury]
WAL	Weighted average life

PROJECT SUMMARY

MEXICO

MULTIPHASE TRAINING AND EMPLOYMENT SUPPORT PROGRAM (PACE) – PHASE III (ME-L1114)

Financial Terms and Conditions						
Borrower: United Mexican States Executing agency: Department of Labor and Social Insurance (STPS)					Flexible Financing Facility[*]	
					Amortization period:	11 years (bullet payment on 15 September 2023)
					Original WAL:	11.01 years ^{**}
					Disbursement period:	5 years
					Grace period:	11 years (bullet payment on 15 September 2023)
Source	Phase I US\$ million	Phase II US\$ million	Complementary loan US\$ million	Phase III US\$ million	Inspection and supervision fee:	***
IDB (OC)	300.0	100.0	150.0	300.0		
Local	300.0	100.0	100.0	100.0	Interest rate:	LIBOR
Total	600.0	200.0	250.0	400.0	Credit fee:	***
					Currency:	U.S. dollars from the Bank's Ordinary Capital
Project at a Glance						
Project objectives: The purpose of the multiphase program is to help create the conditions for a growing economy that creates jobs and to promote worker development, employability, mobility, and productivity. The objective of PACE III is to support the Department of Labor and Social Insurance (STPS) in improving the effectiveness and efficiency of labor market policies and programs. The Bank financing for PACE III focuses on the following lines of action: development of a one-stop window model, BÉCATE job training grants, promotion of self-employment, and the National Employment Service (Component 1); and monitoring, evaluation, and surveys (Component 2).						
Contractual conditions precedent to the first disbursement: The signature and entry into force of the mandate contract for project execution between the borrower, Nacional Financiera, S.N.C. (NAFIN), and the STPS (see paragraph 3.1).						
Exceptions to Bank policies: None.						
Procurement: Works, goods, and services financed with proceeds of this loan will be procured in accordance with IDB procurement policies (documents GN-2349-9 and GN-2350-9), using standard documents harmonized with the Civil Service Department (SFP), the IDB, and the World Bank (see paragraphs 3.4 to 3.7 and Annex III, "Fiduciary Agreements and Requirements"). Direct contracting is authorized for the National Institute of Statistics, Geography, and Information (INEGI) (US\$26.2 million); Colegio de la Frontera Norte (COLEF) (US\$1.3 million); the Industrial Information and Documentation Fund (INFOTEC) (US\$13.1 million); and TOPTEL (US\$10.3 million). See paragraphs 3.5 to 3.7 and Annex III, "Fiduciary Agreements and Requirements."						
Project qualifies as:						
	SEQ [X]	PTI []	Sector [X]	Geographic []	Headcount []	

^{*} Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions, subject in all cases to the final repayment date and the original weighted average life (WAL). The Bank will take market conditions and operational and risk management considerations into account when reviewing such requests.

^{**} The weighted average life (WAL) was calculated with a tentative date for contract signature of 15 September 2012 and a bullet payment date of 15 September 2023. The final WAL will be calculated on the basis of the loan contract signature date, and may be higher or lower than this initial WAL of 11.01.

^{***} The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Economic and labor context.** At the close of 2011, the Mexican economy showed signs of greater dynamism¹ and is recovering from a short but deep recession after the 2008-2009 global financial crisis, which was compounded by the impact of the health contingency. Current trends indicate that employment levels are recovering² despite the fact that unemployment affected 5.7% of the economically active population, which is much higher than precrisis levels (4%).³ The number of workers registered with the Mexican Social Security Institute (IMSS) rose by more than 730,000, for an increase of 5.3% over 2009, offsetting the 181,000 jobs lost between 2008 and 2009.⁴ Despite these signs of economic recovery, evidence suggests that not enough quality jobs are being created, defined as better paid jobs with social security contributions. For example, Antón, Hernández and Levy (2011) found that in 2008, just 28% of the workforce had formal jobs meeting that definition.
- 1.2 **Persistent informality and low productivity.** Like the rest of the region, labor productivity in Mexico is low,⁵ and the labor market displays high levels of informality and underemployment.⁶ These trends have not improved in recent years.⁷ Although the phenomenon of low productivity has many facets, in Mexico it is influenced by the fact that informal jobs and low productivity are more prevalent in over 80% of micro, small, and medium-sized enterprises (MSMEs).⁸ Since MSMEs employ most of the workforce, many workers and their families do not

¹ The global economic activity indicator reports annual growth of 3.5% (0.36% monthly) during December and annual growth in the economy of 3.9% for 2011.

² According to the OECD, Mexico's unemployment rate in 2010 was 5.4%, while the average for the other OECD member countries was 8.5%.

³ National Institute of Statistics, Geography, and Information (INEGI) (2011).

⁴ Department of Labor and Social Insurance (2011), available at: http://www.stps.gob.mx/bp/secciones/conoce/areas_atencion/areas_atencion/web/menu_infsector.html.

⁵ The ILO's key market indicators report an increase of just 14% between 1990 and 2010 in Mexico's productivity, ranking it sixth among the Latin American and Caribbean countries.

⁶ Informal workers are defined as workers who do not contribute to social security. Underemployment is defined on the basis of the number of hours worked or income earned. Underemployment based on hours worked is less than 40 hours per week for workers who state that they want to work more; underemployment based on income is less than the applicable minimum wage for people working 40 hours or more per week.

⁷ Pagés (2010). *The Age of Productivity*. IDB.

⁸ According to Pagés (2010), in the universe of companies with 10 or more employees, companies that employ 20 to 49 workers are 50% more productive on average than those that employ 10 to 19 workers. The productivity of larger companies is more than 180% times higher than smaller ones. Own calculations using the Multipurpose Household Survey (EHPM) 2010 show that almost 80% of workers are employed in companies with 1 to 10 employees, where low productivity problems would be even greater.

- have services such as health insurance or pensions, in addition to earning insufficient income.⁹
- 1.3 Two of the many reasons for the high rate of informality are pertinent for the present program: (i) the lack of information on vacancies in the job market, which makes it difficult to find quality jobs even though good options exist; and; (ii) the absence of the skills and knowledge necessary to obtain a formal job, which is typical of many job seekers (Manpower, 2011). A series of meta-analyses and other impact evaluation reviews by the Organization for Economic Cooperation and Development (OECD) have shown positive impacts on the beneficiaries, particularly of placement services in the short term, and positive medium-term impacts, although more limited, for training (increase in employment, better quality/income) (Card et al. (2010); Kluve et al. (2005); Kluve (2006, 2010); Betcherman et al. (2004) (includes two Latin American and Caribbean countries); Ibararán and Rosas (2007); De Koning (2007)). Evidence also shows that training and job placement services in Mexico can have positive impacts on the search for employment and the probability of finding formal jobs (see optional electronic link 11, “Bibliography”).
- 1.4 There is evidence that training and job placement services can mitigate these problems in the Mexican context. Flores (2010) and, more recently, Zamora, Contreras, and Gutiérrez (2011) have found that the job placement services of the National Employment Service (SNE) improve the likelihood of finding formal employment. Gameren (2010) and Dias (2012) have found that the SNE’s training courses increase the probability of finding a job with benefits.¹⁰ Although the methodologies used in these studies have been criticized, these are the results thus far (see required link 3, “Monitoring and evaluation plan,” for more information on the methodological improvements proposed for Phase III).
- 1.5 **Development of labor policies in Mexico.** The Government of Mexico, acting through the Department of Labor and Social Insurance (STPS), has pioneered the implementation of active labor market policies in Latin America. In the 1980s, Mexico began using models resembling those used by other OECD member countries, which were consolidated with the labor market modernization program

⁹ According to EHPM 2010, although 93% of the economically active population is in the workforce, just 60.8% is fully incorporated, while the remaining 28.9% does not earn enough from their work or does not work full-time. Also, more than half of wage earners do not contribute to social security, i.e. work at informal jobs.

¹⁰ Dias, Dulce (2012). “Impact evaluation of the labor training program BÉCATE.” Labor Markets Unit. IDB. Mimeo; Gameren, Edwin van (2010). “Evaluación de impacto del Programa de Apoyo al Empleo” [Impact evaluation of the Employment Support Program], an evaluation commissioned by the STPS (http://www.stps.gob.mx/bp/secciones/evaluaciones_externas/internas/evaluaciones4/igPAE.pdf); Flores, Roberto (2010). “Innovaciones en la evaluación de impacto del servicio de intermediación laboral en México” [Innovations in the impact evaluation of the job placement service in Mexico], IDB technical note; and Zamora, Salvador, Elba Contreras, and José Manuel Gutiérrez (2011). “Dinámica del mercado laboral y utilización de medios de intermediación laboral en México” [Labor market dynamics and utilization of job placement mechanisms in Mexico], IDB technical note.

starting in 1997.¹¹ It was one of the first countries in the region to promote: (i) a grant program to encourage employers to train job seekers onsite and hire them, led by the SNE in cooperation with the private sector; and (ii) introduction of cofinancing arrangements to encourage MSMEs to invest in training tailored to their needs and focused on ongoing skills development for the beneficiaries. The grants program has been strengthened over the years and has evolved in the context of an employment service supported by job placement tools (face-to-face counseling, website, telephone assistance, and virtual and actual job fairs) that facilitate better jobs for job seekers. Coverage has expanded, and the approach has evolved. Today, the Training and Employment Support Program (PACE) focuses more on finding formal jobs, adapting its training to the productive requirements of companies, although there is still room for improvement. From the standpoint of supply, PACE's target population is job seekers whom it assists with placement and training tools, and employed workers to help them remain in the workforce in cases of economic contingencies. From the standpoint of demand, the program assists employers with their recruitment and selection needs.

- 1.6 **The Bank's support for the STPS.** The Bank has supported Mexico in the employment sector since 1997 through the Labor Markets Modernization Program, comprising: (i) Phase I (loan 983/OC-ME) for US\$250 million, and (ii) Phase II (loan 1256/OC-ME) for US\$200 million. The support continued with the multiphase PACE program: Phase I (loan 1384/OC-ME) for US\$300 million was executed between 2002 and 2006; Phase II for US\$100 million was approved in 2007 (loan 1936/OC-ME); and a complementary loan (loan 2219/OC-ME) for US\$150 million, which addressed the drop in employment caused by the global crisis and the health contingency, was approved in 2009 and will end in 2012.¹²
- 1.7 The complementary loan for US\$150 million was approved with the aims of expanding grants to address special needs of the segments hit hardest by the crisis and providing economic support to the unemployed and those possibly facing layoffs or pay cuts (see optional link 2, "Lessons learned: Latin American experience with crisis-driven labor market programs" (Mazza and Fernandes)). Different initiatives were tested, and two have now been institutionalized: (i) training for temporarily laid-off workers; and (ii) the contingency program, activated only in times of crisis. These lines are now part of the program supported by the Bank, given their fundamental importance for protecting jobs in times of

¹¹ For more information on active labor market policies, see the OECD definition: <http://stats.oecd.org/glossary/detail.asp?ID=28>.

¹² The original proposal for Phase II was to finance US\$300 million. However, as part of its debt reduction strategy, the Mexican government asked the Bank to lower the amount to US\$100 million. In December 2007, the Board of Executive Directors approved PACE, Phase II (loan 1936/OC-ME), for US\$100 million, with a local counterpart of US\$100 million. Given the increase in demand created by the impact of the international financial crisis and the A-H1N1 health contingency on employment, the PACE II funds were insufficient to finance all the activities necessary to meet the program's objectives.

crisis.¹³ Despite these new lines, the main purpose of Phase III remains positioning the SNE as a partner in a more “macro” effort to spur job growth and productivity and improve employment quality in Mexico (see all references under optional link 2, “Lessons learned”).

- 1.8 **Evaluation experience in the sector in Mexico.** In the 1990s, Mexico was one of the few countries in the region where impact assessments were done on active labor market programs, and on training programs in particular. At the time, these assessments were used to guide the design of new active labor market policies. For example, the current approach to onsite training at the company is due largely to the fact that the assessments suggested it was more effective. Unfortunately, institutional changes in the 1990s and 2000 slowed progress on assessment. The process began to resume in Phase II beginning in 2007, with Bank support and with the changes in evaluation policies on the national level that led to the creation of the National Council for Evaluation of Social Development Policy (CONEVAL). Even so, some significant challenges must still be addressed in Phase III, such as: (i) the surveys used to measure the labor performance of the treatment group (the beneficiaries) are not the same as the surveys used to measure the performance of the comparator group; (ii) the information on the beneficiaries is insufficient to find a comparator group as similar as possible to the treatment group; (iii) there is no guarantee that the members of the comparator group participate in the same labor markets as the treatment group; and (iv) the period during which job performance is monitored after the courses is short, lasting for a maximum of 26 weeks (see required link 3, “Monitoring and evaluation plan”).
- 1.9 **Employment policy framework.** PACE responds to the second line of action in the National Development Plan (PND) 2007-2012: stimulating the growth of a competitive economy that creates jobs,¹⁴ driven by a three-pronged strategy to promote employment: (i) investment in physical capital; (ii) enhancement of individual capabilities; and (iii) increased productivity growth. One objective of this strategy is to promote central government policies that create conditions in the labor market that will stimulate the creation of high-quality jobs in the formal sector. PACE Phases II and III contribute to levels (ii) and (iii) of the PND. These are medium-term objectives that continue to be relevant in the current economic context. CONEVAL has pointed out that poverty is caused by many factors, one of which is type of employment and the associated earnings, to which PACE contributes. The program also tends to equalize access to job opportunities for the population with greater limitations.

¹³ Mexico’s official gazette, *Diario Oficial de la Federación*, 31 December 2011, “Acuerdo mediante el cual se establecen las Reglas de Operación del Programa de Apoyo al Empleo para el ejercicio fiscal 2012” [Order establishing the rules of operation for the Employment Support Program for fiscal year 2012], and “Lineamientos de operación del programa de atención en situaciones de contingencia laboral de mayo de 2010” [Operational guidelines for the labor contingency assistance program of May 2010]. [IDBDOCS-#36767174-Reglas de Operación del PACE](#).

¹⁴ The 2007-2012 National Development Plan is available at <http://pnd.presidencia.gob.mx/>.

- 1.10 **The Bank's country strategy.** This operation is aligned with the Bank's country strategy with Mexico 2010-2012 (document GN-2595-1), inasmuch as it promotes better job placement with a direct impact on improved labor intermediation services.¹⁵ The employment policies supported under this operation are also convergent with the government's priorities, the objectives of the country strategy, and the regional goals of the Ninth General Capital Increase (GCI-9). These goals include increasing the labor productivity of Mexican workers, promoting employment, and increasing the percentage of formal jobs compared to informal ones. More specifically, the present operation is part of the GCI-9 objective of "poverty reduction and equity enhancement" and contributes to "a social policy for equity and productivity," particularly to expected result 3.1.5: "individuals (all men, women, youth) benefited from programs to promote higher labor market productivity."
- 1.11 **Phase II triggers for transition to Phase III.** The loan proposal for PACE Phase II (document PR-3217) established that consideration of Phase III financing would be triggered by the following: (i) 50% of Phase II disbursed; (ii) 75% of Phase II committed; (iii) 60% of the BÉCATE target met (165,000 grants); and (iv) sufficient progress in design and implementation of the monitoring and evaluation system. Compliance with the Phase II triggers (loan 1936/OC-ME) is now fully complete: (i) 100% of Phase II disbursed; (ii) 100% of the BÉCATE target met; and (iii) progress in developing a single record format to facilitate integration of the monitoring and evaluation system. Under Phase II and the complementary loan, the STPS surpassed the programmed targets: it has assisted 14.9 million people, which exceeds the estimate of 7.5 million for that phase.
- 1.12 **Rationale for the Phase III loan.** The analyses performed by the Bank in preparing Phase III are consistent with the need to improve, strengthen, and expand active labor market policies, which have been medium-term objectives of PACE Phase II. A key aspect of the multiphase program is to continue creating the conditions to match job seekers to good quality jobs in the formal sector. The impact evaluations of PACE show an increase in the placement rate and in the income, and benefits received by the BÉCATE program beneficiaries,¹⁶ which demonstrates that the objective of placing the PACE beneficiaries in better quality jobs is being met. Progress has also been made in enhancing mechanisms that target quality jobs in key modalities (the Bolsa de Trabajo labor exchange, employment portal, and grants). The fact that this work was done in a crisis context did not prevent the expected outcomes and targets for Phase II or the Phase III triggers from being met, an accomplishment made possible by the additional resources

¹⁵ Improvements in job placement services are measured by: (i) the number of job seekers assisted through the various actions of the SNE; and (ii) the placement rate among PACE beneficiaries.

¹⁶ For more information on the results, see the report "Evaluación de impacto del Programa de Apoyo al Empleo" [Evaluation impact of the Employment Support Program], available at: http://www.stps.gob.mx/bp/secciones/transparencia/programas_sociales/PAE2010-2011/informe%20final%20Evaluaci%C3%B3n%20de%20Impacto%20del%20PAE.PDF.

received for contingency actions. One of the achievements of Phase II was the significant increase in the number of people turning to personalized placement services at SNE's offices, the number of people applying for financial support to reenter the workforce, and the number of companies applying for temporary support to avoid laying off their employees, partly owing to the global crisis, but also to the visibility that followed the launch of the employment portal. This increase in the volume of demand without a commensurate increase in staff devoted to the services awakened interest in finding ways to improve the quality of the service for a larger number of users. This was the origin of the interest in creating a one-stop window model in Phase III that would reengineer the system completely: redesign of the information, monitoring, and other systems to change in the SNE's operating model fundamentally, gearing it toward a results-driven culture that better measures progress in building capacity to provide better meet various client needs. This also entails a shift in the culture from a program based on control and meeting targets to a results-based program. Another change in Phase III will be to realign all services and programs around a one-stop window, which is a practice established in several OECD countries that has not yet been applied in Latin America. The one-stop window is an operating model that reorganizes administration around a single entry point for users to access employment programs. Thus far, there is a master registry format and general conceptual framework for transition to the new system. Adjustments will also be made in the way SNE operates in this area, to improve service, monitoring, and efficiency of operation and optimize the investment in the program (see optional link 1, "One-stop window"). In addition, innovations will be introduced in evaluation: (i) a pilot experimental evaluation will be conducted in one state (Nuevo León); and (ii) samples will be enlarged to yield better information on the characteristics of beneficiaries, and impact evaluation surveys will be aligned to address the criticisms described in paragraph 1.8.

- 1.13 In conclusion, Phase III seeks to make a qualitative leap in efficiency, scope, and impact, so as to contribute to attainment of the objectives of the multiphase program. Phase III will also support the job placement activities in the service network, as well as the number of grants and employment supports, and perform the additional studies and surveys necessary to monitor employment conditions in the country.

B. Objectives, components, and cost

- 1.14 The purpose of the multiphase program is to help create the conditions for a growing economy that creates jobs and to promote worker development, employability, mobility, and productivity. The objective of PACE Phase III is to support the Department of Labor and Social Insurance (STPS) in improving the effectiveness and efficiency of labor market policies and programs.
- 1.15 The goal of Phase III will be to increase effectiveness in terms of the quality of job placements for its beneficiaries, and promote greater efficiency in the delivery of services. The challenge for the National Employment Service (SNE) in this sweeping reorientation is to continue serve its target population—job seekers and

employed workers—with the effectiveness typical of it, while implementing the planned changes. The loan proceeds will support the continuity of placement and training activities and the investments necessary to develop the one-stop window, which will be gradually realigned to avoid slowing down the operation of the services delivered by the SNE through its 163 employment offices and its Web portal to millions of job seekers each year (Component 1). Employment surveys and studies to support the analysis of employment policies in Mexico will also continue (Component 2).

- 1.16 Activities will also be financed to facilitate development of the one-stop window model, contributing to improvements in the efficiency and quality of PACE's placement and training activities, which are misaligned at present. The one-stop window seeks to align the work of placement to ensure that every job seeker receives the best possible assessment of his or her abilities and experience before being directed to the most suitable service option. This involves financing the redesign of processes, moving toward a single registry (redesign of information systems), reorganizing and retraining staff working in the different areas, restructuring the employment offices, and redesigning control systems, to introduce a flow that aligns services, placement tools, and tools for registration (of vacancies, employers, and beneficiaries). This, in turn, requires redesign of existing monitoring systems that were established for the purpose of management control and not to measure results or track beneficiaries.
- 1.17 Phase III also seeks innovations in evaluation (see required link 3, "Monitoring and evaluation plan"). Improvement in the quality of the methodologies applied to PACE's evaluation and monitoring activities is a key aspect in the transition to a new generation of placement services in the framework of a one-stop window. This is a process of gradual institutional change that will extend beyond the period covered by this loan, although a significant part of the design and implementation stages will be carried out during it.
- 1.18 **Component 1. Job placement and support for beneficiaries (US\$275 million).** This component will support investments to update, improve, and operate two lines: (i) placement: US\$126 million; and (ii) BÉCATE job training grants, promotion of self-employment, and, when necessary, support in contingencies: US\$149 million. The two will be developed in the context of a realignment with a view to gradual transition to a one-stop window.
- 1.19 **Intermediation and placement actions.** The SNE has made progress in upgrading its face-to-face job counseling services and consolidating its employment portal. From March 2008 to date, more than 5.5 million people have registered with the portal, 7.7 million vacancies have been posted, and one million job seekers have been placed in formal-sector jobs. The financing for Phase III is expected to cover 16 million services,¹⁷ through a series of face-to-face and virtual employment

¹⁷ Refers to each time a user receives a service through a job placement window, including job seekers and employers.

activities. Despite the volume of services, the challenge remains to improve the quality of the services delivered by the SNE. Phase III seeks to focus on its placement efforts by delegating its transactional processing to automated options and providing personalized support at the entry window, with a view to making better use of job counseling activities to improve the match of job seekers to jobs. This will be measured in terms of the quality of job placement for beneficiaries compared to job seekers not supported by PACE.

- 1.20 To meet these objectives, financing will be provided to cover investment costs, operating costs, and, as applicable, the costs of dissemination with emphasis on electronic media and social network strategies for all the placement activities that, taken together, form the entry point for users of the service, job seekers and employers. Both can access the SNE through different assistance arrangements financed with loan proceeds: personalized counseling at the employment offices, the employment portal (website), a 01-800 telephone number, and actual and virtual job fairs aligned with the concept of the one-stop window and with greater efficiency owing to new working tools that will improve the quality of service for users. Job seekers will receive information about job opportunities, job counseling, and, when warranted, the training needed to find a job. Employers may turn to the SNE to find the employees they need. Financing will be provided to develop ‘matching’ tools that are being validated in a second-generation employment portal launched in late 2011. Loan proceeds will also be used to: (i) reassign staff so there will be a larger number of counselors in the areas of personalized job counseling;¹⁸ (ii) acquire working tools and mobile units, which will increase the capability to provide more nimble and effective service for the SNE’s target population; (iii) support the consolidation and broader reach of the second-generation employment portal¹⁹ and the design of a new Observatorio Laboral Mexicano [Mexican Employment Observatory] (OLA), through which job seekers will have access to tools to self-evaluate their qualifications for certain jobs and obtain timely market information to guide their search decisions; (iv) support the development of actual and virtual job fairs at the state and national levels;²⁰ (v) update face-to-face and virtual employment workshops to increase their effectiveness in providing job seekers with tools for their searches and specialized support; (vi) expand the menu of services offered by the SNE through its telephone service, job counseling,

¹⁸ The increase in the number of counselors in placement areas does not entail an increase in federal staffing because it involves reassigning BÉCATE personnel to these tasks and making this new cadre of counselors responsible for monitoring the results of the entire portfolio.

¹⁹ Portal 2, launched in late 2011, includes new functions: a search tool, ‘matching’ software that only processes candidates who meet the employer’s minimum requirements and processes profiles that facilitate better presentation of skills, listings, and instructional videos relevant for the search. Since March 2008, the STPS has made progress in improving and consolidating the employment portal. More than 5.5 million people have registered with the portal; 7.7 million job vacancies have been posted; and more than 1 million job seekers have been placed.

²⁰ The use of fairs for strategic employment purposes has increased, with some success, for example through fairs specializing in sales, or fairs to promote interest in emerging jobs, such as green jobs.

information on services, support in processing documentation for job seekers, and technical support for users of the portal and other virtual media; and (vii) support upgrades to the placement centers, which will be equipped with new hardware and broadband Internet with higher capacity to facilitate searches through the various social media networks available on the Web.

- 1.21 **Support for training and self-employment.** Financing will be provided for training grants and costs related to coordination and supervision of the BÉCATE program,²¹ actions to promote self-employment (subsidies in kind for operating a business of one's own and, where necessary, support to upgrade facilities),²² and support relating to economic contingencies. At least 800,000 young people and adults are expected to benefit over a five-year period and improve the quality of their job placement. In Phase III, greater efforts will be made to match beneficiaries to quality jobs. To achieve this, 70% of BÉCATE resources will be targeted to the internships and the mixed training modalities, which feed into better-paying jobs in the formal sector and are subject to impact evaluations.²³ The other 30% will be targeted to self-employment training and training voucher modalities. The self-employment training modality serves population segments with greater difficulties in obtaining formal employment, on account of their profiles or the scant supply of formal sector jobs. The training voucher modality is targeted to individuals with strong employability prospects who only require additional training to facilitate their access to formal-sector jobs. Also, in response to the results of the 2008 and 2009 impact evaluations showing that the impact of the program is less significant for women, the efforts of Phase III will focus on ensuring that women program beneficiaries are able to find better-paying jobs than women who do not receive BÉCATE support.²⁴ The financing also includes contributions by state governments and companies for operation of the supports.
- 1.22 Phase III will focus on expanding participation by companies in a position to offer better job opportunities. Promotion and coordination will be targeted to channeling BÉCATE beneficiaries into quality jobs. The lessons learned from Phase II indicate

²¹ The BÉCATE program supports job seekers who require training to find or keep a job, or to develop a self-employed productive activity. The implementation modalities are: mixed training, internships, training vouchers, and self-employment training. For more information see http://www.stps.gob.mx/bp/secciones/conoce/areas_atencion/areas_atencion/servicio_empleo/becate.html.

²² Most of the subsidies range from US\$2,500 to US\$10,000, although the ceiling per person is US\$2,000 (25,000 Mexican pesos per person). The support is provided in kind, in the form of equipment to operate the self-employed business. The goods are acquired at each SNE office at the beneficiary's request based on needs. The maximum support for facility improvements is 5,000 Mexican pesos per person (see Annex III).

²³ It is not feasible to generate a comparator group in the ENOE for training for self-employment.

²⁴ The impact of internships and mixed training on men and women will be compared through an experimental evaluation in at least one state and at the national level, in the impact evaluation of this phase. In the event that the number of observations in the experimental evaluation is insufficient to estimate different impacts for men and women, the nonexperimental evaluation (national) will generate a sample large enough to estimate BÉCATE's impact by gender.

that it is important to monitor the results of this effort semiannually, for each line, so that timely adjustments can be made (see required link 3, “Monitoring and evaluation plan”).

- 1.23 **Aligning efforts with the Oportunidades program.** Thought will also be given to how to better meet the job search needs of low-income youth, particularly recent graduates of the Oportunidades program. To supplement and meet the objectives of PACE III of improving placement in formal jobs, the General Coordination Office of the National Employment Service (CGSNE) has initiated dialogue with the Oportunidades program to identify actions to improve the employment opportunities of young program graduates, particularly the Oportunidades beneficiaries graduating from upper secondary school and higher education who are seeking jobs. This is the segment of the Oportunidades target population that could benefit from the active policy instruments offered by the SNE,²⁵ particularly by coordinating efforts through its service windows and the BÉCATE program.
- 1.24 **One-stop window.** The transition to a one-stop window entails a radical change in the way of delivering services, including a reorganization of personnel, functions, technologies, and processes to propel a qualitative leap in service efficiency and quality.²⁶ Progress has been made in designing a regulatory framework and a master register. An action plan has also been prepared with the broad outline for developing the one-stop window without affecting the flow of support for PACE users and beneficiaries. The loan will support the development of this plan (see optional link 1, “One-stop window”). Financing will be provided for: (i) design of the organizational restructuring of services at the national and state levels, and the investment in commissioning the technical advisory services and human and physical resources necessary to consolidate the restructuring; (ii) adjustments to new instruments, office remodeling and equipment, equipment for mobile units, and applications to be tested and validated before systemwide rollout; (iii) design and implementation of an ongoing and refresher training system for counselors, liaisons with companies, and other SNE staff to propel a qualitative leap in their professional development;²⁷ and (iv) a complete overhaul of information systems,

²⁵ The Fifth Government Report (2011-2012) estimates that about 200,000 young people in upper secondary school will study for the bachillerato (baccalaureate or preparatory course) with an Oportunidades scholarship. The National Scholarship Program for Higher Education (PRONABES) reports that it has awarded 56,600 scholarships to graduates of the Oportunidades program to pursue their studies. A survey of 11,291 Oportunidades graduates indicates that more than 80% hope to continue their studies to obtain better jobs.

²⁶ The SNE’s interest in developing a one-stop window model arose from a study visit and analyses of the experiences of OECD services supported by the Bank. Certain states, such as Nuevo León, San Luis Potosí, and Jalisco are already experimenting with some aspects of the model, but this is the first attempt to design and implement the model at the national level.

²⁷ The design of the ongoing training system will build on the coordination of efforts between private agencies and the SNE, established with the creation of the employment portal. A network of employment professionals will be established with a view to providing avenues for training, feedback, dissemination of good practices, and new developments in employment policies.

- technologies, and tools to improve the quality of the counseling received by job seekers, services for companies, and results monitoring.
- 1.25 These improvements are expected increase the efficiency of intermediation, job placement, and results monitoring activities, beginning in the second phase. The proposed changes will lead to better use of the information obtained during registration and operation of the interventions, for more systematic monitoring of the beneficiaries to determine the extent to which workers are finding better-paid jobs and whether the SNE is encouraging the posting of better quality vacancies. Operating costs related to institutionalization of ongoing analysis of results and units costs based on registry data will also be financed, to obtain evidence from all lines of activity about the efficiency of interventions to guide the SNE's management and planning. These changes are expected to build the SNE's capacity to track cases, providing more systematic contact with the beneficiaries to learn about market requirements and measure the results of the program in the medium term in a more crosscutting fashion (see required link 3, "Monitoring and evaluation plan"). It should also be noted that the CGSNE directs PACE through the use of rules of operation at the national level, and that the SNE depends on the cofinancing and cooperation of the states. A preliminary analysis indicates that by the end of Phase III, 22 of the 32 states will have adopted the model.
- 1.26 **Component 2. Monitoring, evaluation, and surveys (US\$25 million).** Approximately 24 surveys will be conducted with Bank support. The STPS will continue to conduct the labor market surveys with support from INEGI and Colegio de la Frontera Norte (COLEF), which are key institutions for employment policy management with Bank support. Financing will also continue for the activities under Phase II and the complementary loan to strengthen the institutional capacity of the STPS to develop, analyze, and evaluate labor policies. Continuation of the following surveys will be financed: (i) the National Occupational and Employment Survey (ENOE) a state-level survey of urban areas; (ii) the National Survey of Education, Training, and Employment (ENECE), a nationwide survey; (iii) the National Microenterprise Survey (ENAMIN); (iv) the National Survey of Employment, Wages, Technology, and Training (ENESTyC); and (v) other special surveys as identified with the Bank. The STPS is already coordinating with INEGI to modify the surveys (such as the Job Placement and Tenure Survey (ENCOPE)) so as to generate data to evaluate job training activities (BÉCATE). ENCOPE will undergo the greatest expansion among the surveys. In particular, a comparison group will be added, which is a key step to ensure comparability of the data with data on the treatment group (see required link 3, "Monitoring and evaluation plan").

- 1.27 **Gender as a crosscutting theme.** The SNE has received support and experimented with several activities in the area of gender²⁸ during the multiphase program. Based on the lessons learned, efforts in Phase III will focus on measuring the impact in terms of the quality of jobs found for beneficiary women in all the program's modalities. This analysis will be performed semiannually so that adjustments can be made, if necessary, in the arrangements for coordination and ongoing training, to ensure best results during implementation of the one-stop window.
- 1.28 **Innovations in monitoring PACE.** A substantial leap will be made under Phase III in the quality, consistency, and use of monitoring and impact evaluation systems, including the employment surveys and the introduction of innovations in monitoring and evaluation methods. The activities in this component will seek to: (i) adapt and integrate the program's administrative information (e.g. the information obtained at initial registration) and find external sources of administrative information (e.g., information on IMSS contributors) to enhance monitoring, supervision, and evaluation capacity; (ii) document and standardize the processes and application methodology for the program's impact evaluation, to ensure more robust and accurate results; (iii) improve the design of the surveys currently used, to facilitate rigorous impact evaluations; (iv) create the instruments to document and institutionalize the unit cost analysis, so that information linking costs to results will be accessible at all times; and (v) based on the existing performance evaluation model, propose indicators to measure productivity in key areas that could form part of a new results-based management model. Publicity services may also be financed to support dissemination of the program's outcomes.

C. Key results indicators

- 1.29 Consistent with the country strategy, the Phase III results indicators are intended to increase the number of job seekers served and the placement rate among beneficiaries. The financing will benefit approximately 800,000 people through support for training and the promotion of self-employment. More than 16 million services and 9 million referrals to vacancies are expected to be provided, resulting in about 4 million placements. These estimates are based on the budget allocation and may vary during execution. The program's emphasis is on strengthening the operational and analytical mechanisms of the PACE program, and not on increasing coverage. The following employment indicators will be used for the program: (i) placement rate; (ii) compensation; (iii) registration with the IMSS; and (iv) job tenure (see required link 3, "Monitoring and evaluation plan"). In this phase, data broken down by gender will also be obtained on services, referrals to vacancies, and placements.

²⁸ With the support of technical cooperation resources and loan proceeds from previous stages, progress has been made in raising awareness among job counselors. The SNE has made efforts to educate employers and job seekers themselves about the advantages of promoting greater equality of opportunity. Other actions include the institutionalization of a gender norm that permits companies to qualify for recognition. The norm was created with support from the World Bank, and the STPS institutionalized it with Bank resources. This has encouraged more companies to adopt diversity and gender policies.

- 1.30 **Cost and financing.** The estimated cost of Phase III is up to US\$400 million. Of that amount, US\$300 million will be financed by the Bank, and up to US\$100 million will be contributed by the local counterpart.

Program cost, Phase III (US\$)*			
Investment category	IDB (OC)	Local contribution **	Total
1. Job placement and support for beneficiaries	274,840,000	99,700,000	374,540,000
2. Monitoring, evaluation, and surveys	25,000,000	300,000	25,300,000
Audits	160,000	0	160,000
TOTAL	300,000,000	100,000,000	400,000,000

* The annual amounts depend on budget availability.

** This amount includes the contributions of the federal government, local governments, and firms.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This is an investment loan from the Bank's Ordinary Capital, under the terms of the new Flexible Financing Facility (FFF) (document FN-665-1). The loan proceeds will be channeled through a specific account at Nacional Financiera, S.N.C. (NAFIN), as financial agent designated by the government. The loan amount will be up to US\$300 million. The projected disbursement period is five years.

Disbursement schedule (US\$)						
Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	55,000,000	65,000,000	65,000,000	65,000,000	50,000,000	300,000,000
Local	22,000,000	25,000,000	25,000,000	25,000,000	3,000,000	100,000,000
Total	77,000,000	90,000,000	90,000,000	90,000,000	53,000,000	400,000,000

B. Environmental and social safeguard risks

- 2.2 In terms of environmental and social safeguards, the program has been classified as a category "C" operation. There are no risks of adverse environmental or social impact during the execution of PACE Phase III, since it finances technical assistance and support for job seekers. The computer systems for monitoring and evaluation are also expected to have no adverse environmental or social impact.

C. Fiduciary risks

- 2.3 The Bank's experience with earlier operations in the multiphase program and application of the Institutional Capacity Assessment System (ICAS) have shown that the STPS has a high level of institutional development and an adequate internal control environment and accounting, monitoring, and supervision systems that can

identify how resources are used in each state. The audited financial statements have been delivered with a clean opinion for each year of execution. Accordingly, no fiduciary risks have been identified for program execution. However, federal and state staffing turnovers, which are more pronounced in periods of government transition, could delay execution. The impact of this risk has been classified as low, given that the CGSNE has stable technical teams, manuals, and guidelines that assure continuity of the processes underlying the program.

D. Other risks

- 2.4 **Macroeconomic risks.** A constant risk associated with labor market policies is that, in the final analysis, results in this field may depend more on the macroeconomic environment than on the policies. An economic cooldown, owing to the growth of the world economy or the behavior of the domestic economy, would mean few high-quality jobs created. The complementary loan sets a precedent in adapting active labor market policy instruments to macroeconomic changes and redirecting them to the protection of job sources.
- 2.5 In the current context of presidential elections in Mexico and the subsequent transition period, there is a risk related to appropriation of the program by the new administration. The Bank is preparing a dialogue with the transition team, and no major impact on the program is anticipated, considering its history as a long-standing government policy and the continuity of the project over more than three administrations.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of execution arrangements

- 3.1 **Borrower and executing agency.** As with the previous loans in the multiphase program, the borrower will be the United Mexican States, represented by the Department of Finance and Public Credit (SHCP), which will designate Nacional Financiera, S.N.C. (NAFIN) as financial agent. The executing agency will be the Department of Labor and Social Insurance (STPS). **The signature and entry into force of the mandate contract for project execution between the borrower, NAFIN, and the STPS will be a condition precedent to the first disbursement.**
- 3.2 **Project execution and administration.** STPS, acting through the General Coordination Office of the National Employment Service (CGSNE) and the Office of Labor Research and Statistics (DGIET), will have overall responsibility for the administration and execution of the Training and Employment Support Program (PACE). The Office of Programming and Budget (DGPP) will serve as a one-stop window for monitoring all actions under the program and will deliver annual reports to the Bank within 70 days after the close of the fiscal year.
- 3.3 The National Employment Service (SNE) operates in a decentralized framework at both the federal and local government levels. The CGSNE directs the National Employment Service Offices (OSNEs) and allocates resources to the state

governments and the Federal District, which in turn contribute additional national counterpart resources.

- 3.4 **Procurement.** The procurement of goods and services and the contracting of consultants will be conducted in accordance with Bank policies (documents GN-2349-9 and GN-2350-9). The program calls for the financing of minor works for office remodeling. The thresholds for the different procurement modalities are as follows (in US\$):

Works			Goods ²⁹			Consulting services	
International competitive bidding	National competitive bidding	Shopping	International competitive bidding	National competitive bidding	Shopping	International publicity consulting	Short list 100% national
> 15,000,000	< 15,000,000 and > 500,000	< 500,000	≥ 3,000,000	< 3,000,000 and > 100,000	< 100,000	> 200,000	< 500,000

- 3.5 As in earlier phases, the borrower, through the STPS, may select and contract the following consulting services directly, without competition, for a cumulative amount of up to US\$27,500,000: (i) National Institute of Statistics, Geography, and Information (INEGI) for an estimated amount of US\$26,200,000; and (ii) Colegio de la Frontera Norte (COLEF) for an estimated amount of US\$1,300,000, to conduct the monitoring surveys. This single-source selection is justified by the two institutions' demonstrated expertise in the gathering, processing, and dissemination of statistical and geographic information, as well as the need for continuity and reliability, and the official nature, of this information. Furthermore, INEGI and COLEF have provided their services in a satisfactory manner. Therefore, single-source selection is allowable, pursuant to paragraph 3.10, points (a) and (d), of document GN-2350-9 (see required link 4, "Procurement plan").
- 3.6 Comprehensive information technology services for SNE (nonconsulting services) may be procured directly from the Industrial Information and Documentation Fund (INFOTEC) for up to US\$13,100,000, for reasons of continuity and specialization in providing the service and the experience gained by the provider over more than 10 years of ongoing service. INFOTEC is considered a strategic technology partner of STPS, and its costs are within market ranges. There is also high degree of specialized interaction with the systems supported by INFOTEC, as a result of its years of assistance and learning with STPS. This direct contracting is based on paragraphs 3.6(a) and 3.6(b) of document GN-2349-9 (see required link 4, "Procurement plan").

²⁹ Includes nonconsulting services.

- 3.7 Nonconsulting services for the SNE's Call Center may also be contracted directly from the firm TOPTTEL for up to US\$10,300,000, for reasons of continuity and because the company has been awarded two continuous multiyear contracts under national competitive bidding, in accordance with national laws. The value added services associated with labor intermediation listed in Annex III should also be taken into consideration. This direct contracting is based on paragraph 3.6 (a) of document GN-2349-9 and reflects elements of paragraph 3.10, points (a) and (d), of document GN-2350-9. In view of the program's low level of fiduciary risk, at least one inspection visit will be conducted each year. The ex post review of procurements by the external auditor will be performed in accordance with terms of reference agreed on by the IDB and the Civil Service Department (SFP). The procurement plan will be updated annually or as required during execution, and each updated version will be submitted to the Bank for approval. The procurement, selection, and contracting of goods, works, and consulting services will be conducted in accordance with the most recent plan approved by the Bank.
- 3.8 **Retroactive financing and recognition of expenditures.** The Bank may allow up to US\$12 million in eligible expenditures incurred by the STPS for the program on or after 21 February 2012 to be recognized against the local counterpart contribution, and up to US\$25 million in such eligible expenditures to be reimbursed from the loan proceeds (grants and other assistance, placement activities and related operating expenses, institution-strengthening and equipment, consulting services, surveys or other studies, and dissemination activities with emphasis on electronic media and social network strategies for all job placement and employment support activities).
- 3.9 **Financial administration and external audit.** The Phase III loan will utilize the same control mechanism for financial management and accounting as provided for the current loan (loan 2219/OC-ME). Therefore, all country systems will be used for financial matters. Transfers of funds to the states will be recorded at the federal level in the Integrated Accounting and Budget System (SICOP), and actions and payments to beneficiaries will be recorded in the Employment Support Program Information System (SISPAE), which is used to determine eligible expenditures. The executing agency will submit annual financial statements during execution, audited by auditors acceptable to the Bank under terms of reference agreed upon with the External Audit Office of the SFP. The external audits will be financed with the loan proceeds.

B. Summary of arrangements for monitoring results

- 3.10 In monitoring results based on PACE's current records, three sources of information on the performance of the beneficiaries in the labor market will be considered: (i) administrative records on jobs, their quality, and tenure; (ii) the master record to be used for all PACE lines of activity; and (iii) cross-referencing of beneficiary information with data from the IMSS, which will facilitate medium-term monitoring (see required link 3, "Monitoring and evaluation plan: Results"). This data is expected to be broken down by gender.

- 3.11 In terms of impacts: (i) significant methodological improvements will be made in the design of the surveys to be used for evaluation, and improvements are expected in the design of the sample, monitoring period, and inclusion of comparator and treatment groups in the same survey; (ii) information from the surveys will be supplemented with administrative information from the IMSS; and (iii) progress will be made on a pilot evaluation project with an experimental design (see required link 3, “Monitoring and evaluation plan: Impacts”).

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	Poverty reduction and equity enhancement.		
Regional Development Goals	Share of formal employment in total employment.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	Individuals (all, men, women, youth) benefited from programs to promote higher labor market productivity.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2595-1	Promote better job placement.	
Country Program Results Matrix	Not available	The intervention is included in the 2012 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	9.5		10
3. Evidence-based Assessment & Solution	9.0	25%	10
4. Ex ante Economic Analysis	10.0	25%	10
5. Monitoring and Evaluation	9.1	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood	Low		
Environmental & social risk classification	C		
III. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, and Internal Audit. Procurement: Information System.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor	Yes	The program promotes active labor markets policies, specifically labor training and intermediation. The program tries to place job seekers in formal jobs, while also helps training based on the private sector needs. The program also helps develop better policy through the recollection of information in labor markets surveys.	
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	ME-T1190.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.	Yes	The ex-post evaluation will deal with many of the problems that earlier impact evaluations had: i) the comparison group will be measured with the same instruments, ii) the questionnaires will be refined to add more data to get a better comparison group, iii) the comparison group will be taken from people that are in the same labor market, iv) the subjects will be followed for a longer period of time (18 months).	

This project is the third phase of a multiphase program that aims at creating the conditions for a growing economy and that generate jobs, and to promote development, the potential for employment, labor mobility, and workers' productivity. The objective of this third phase is to support the Secretary of Labor and Social Welfare to improve the effectiveness of labor market policies. The project contributes to the goals of poverty reduction and equity enhancement and increasing the share of formal employment in total employment. The project is aligned with the Bank's Country Strategy and is included in the 2012 Country Program Document.

The project is highly evaluable. The diagnosis has adequate information about the informality, underemployment, and low labor productivity problems in Mexico and it discusses possible causes. The justification of potential solutions is adequate. The document also presents evidence on the effectiveness of previous interventions. The results are correctly defined and indicators are SMART. The monitoring and evaluation plan is appropriate and includes elements of monitoring and impact evaluations for the intermediation and training policies. There is a proper cost-benefit economic analysis. Benefits used in the cost-benefit analysis are part of the project results matrix. The project has correctly identified the main risks and the corresponding mitigation actions.

RESULTS MATRIX

Project objective	To support the Department of Labor and Social Insurance (STPS) in improving the effectiveness and efficiency of labor market policies and programs.		
Results indicators	Baseline	Target	Comments
Impact: - Difference in the rate of placement in formal jobs between job seekers assisted by the Employment Support Program and the rates for job seekers in the comparator group.	10% (2006)	12% (2016)	<i>The 2012 data will be adjusted at the baseline level when it becomes available, which may entail an adjustment in the targets.</i>
Improvement in job placement services: - Percentage of vacancies filled compared to the number of vacancies posted on the Bolsa de Trabajo labor exchange. - Rate of placement through job counseling (Bolsa de Trabajo labor exchange). - Rate of placement of Employment Support Program beneficiaries. - Average percentage change in compensation of BÉCATE beneficiaries before and after treatment.	22% (2006) 30% (2006) 62.5% (2012)	28% (2016) 32% (2016) 65% (2016) 3% (2016)	<i>The evaluation of PACE I found that the program participants who received training grants had a 10% higher likelihood of finding a formal job than the control group. For this reason the baseline is set at 10%, and the impact of this phase is projected to be between 10% and 15%.</i> <i>Current placement levels are expected to be maintained, which are higher than for other types of interventions.</i> <i>Information on placements is obtained from STPS systems. Information on differences in compensation will be obtained during the impact evaluation.</i>

Component 1	Baseline	2012	2013	2014	2015	2016	Final target	
Outputs: Beneficiaries of job placement support	450,000		200,000	220,000	240,000	140,000	1,250,000	<p><i>The baseline corresponds to the projected target of the complementary loan for Phase II.</i></p> <p><i>This output includes the beneficiaries of grants and job placement and employment supports in all modalities eligible for financing. It will be executed as part of implementation of the one-stop window.</i></p>
Component 2	Baseline	2012	2013	2014	2015	2016	Final target	
Outputs: Surveys conducted and analyzed	14		7	7	7	3	38	<p><i>Surveys by INEGI and COLEF.</i></p> <p><i>The baseline corresponds to the projected target of the complementary loan for Phase II.</i></p>

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Mexico
Project number:	ME-L1114
Name:	Multiphase Training and Employment Support Program (PACE) – Phase III
Executing agency:	Department of Labor and Social Insurance (STPS)
Fiduciary team:	Gloria Coronel and Víctor Hugo Escala (PFM/CME)

I. Executive summary

The Department of Labor and Social Insurance (STPS) is an agency of the federal executive branch. According to the 2007-2012 National Development Plan and the Labor and Social Welfare Sector Program for the same period, the STPS's three main lines of activity are: promotion of investments in an increasingly competitive economy that creates jobs and promotes labor relations based on productivity; the reconciliation of interests among the agents of production in order to achieve industrial harmony; and enforcement of the law, particularly in the areas of social insurance, workforce integration, and gender equity. More details and the STPS organizational chart can be found on the website www.stps.gob.mx.

The Bank has supported the STPS with several operations since 1997 (see paragraph 1.6 of the proposal for operation development). Execution of the Phase II complementary loan (ME-L1084, loan 2219/OC-ME) will be completed in mid-2012, to be continued with the operation proposed here.

II. Fiduciary context of the executing agency

Program execution will be based on a decentralized arrangement between the federal and the state or jurisdiction governments. Rules and regulations are the responsibility of the General Coordination Office of the National Employment Service (CGSNE) of the STPS, acting through the National Employment Service Offices (OSNEs) and the Office of Programming and Budget (DGPP) as coordination unit. Each year, the Project Team Leader and the trustee make several joint visits to various jurisdictions together with staff of the CGSNE, OSNEs, DGPP, and Nacional Financiera, S.N.C. (NAFIN). It has been confirmed that financial control processes continue to operate as designed, and recommendations have been made for the ongoing improvement of those processes.

The institutional capacity questionnaire was updated for the execution of program ME-L1114 by the STPS, yielding a consolidated summary of 97.8%, which indicates a high level of development of fiduciary systems and low risk for program execution. No other weaknesses of the executing agency were identified that could jeopardize the effective execution of the program.

III. Fiduciary risk evaluation and mitigation measures

As mentioned, the Institutional Capacity Assessment System (ICAS) found that the STPS has a satisfactory level of development of its fiduciary systems and presents low risk for fiduciary execution. Details of the ICAS can be found at [IDBDOCS-#36723010-Cuestionarios SECI STPS](#).

This multiphase program is in Phase III. The executing agency has demonstrated solid experience and capacity for the execution of IDB-financed programs. To keep the executing agency up-to-date on Bank financial and procurement policies, training workshops are held annually on the preparation of audited financial statements, and procurement training and refresher activities may be conducted, if deemed necessary.

IV. Considerations for the Special Provisions of the loan contract

1. The exchange rate for accounting purposes will be the rate on the last business day of the month prior to the expenditure.
2. Annual and closing audited financial statements will be prepared in accordance with the general terms of reference harmonized with the Civil Service Department (SFP) by auditors eligible for the IDB.
3. Procurement will be conducted in accordance with the Bank's procurement policies (documents GN-2349-9 and GN-2350-9) of March 2011.
4. For the selection and contracting of works, goods, and nonconsulting services, consulting firms, and individual consultants, the executing agency will use the bidding documents and contracts agreed upon by the SFP and the Bank, as published on the website: www.funcionpublica.gob.mx.
5. Prior to any contract solicitation or award, the executing agency will submit the proposed procurement plan to the Bank for review and approval, in accordance with the Bank's procurement policies.

V. Agreements and requirements for procurement execution

1. Procurement execution

Procurement will be conducted in accordance with the Bank policies established in documents GN-2349-9 and GN-2350-9. The Bank and the STPS have agreed upon the projected procurement plan for PACE Phase III, covering the program execution period. This procurement plan will be updated annually or as required during program execution, and each updated version will be submitted to the Bank for review and approval. The plan will be available on the websites of the STPS and the Bank.

- a. **Procurement of works, goods, and nonconsulting services:** Contracts for works, goods, and nonconsulting services¹ subject to international competitive bidding

¹ "Policies for the procurement of works and goods financed by the Inter-American Development Bank" (document GN-2349-9), paragraph 1.1: Nonconsulting services are treated as goods.

(ICB) and national competitive bidding (NCB) will be executing using the harmonized bidding documents agreed upon by the SFP and the Bank, available at www.funcionpublica.gob.mx. The project's sector specialist is responsible for reviewing the technical specifications for procurements during preparation of the selection processes.

WORKS: The program works include minor remodeling and repairs to the offices of the National Employment System (SNE) around the country.

GOODS: The goods to be procured under the program include software licenses and vehicles to expand coverage.

NONCONSULTING SERVICES: The following nonconsulting services may be contracted directly:

- Comprehensive information technology services for the SNE and job placement will be procured directly from the Industrial Information and Documentation Fund (INFOTEC) for reasons of continuity and specialization in providing the service and the experience gained by the provider over more than 10 years of ongoing service. INFOTEC is considered a strategic technology partner of STPS. It has been responsible for the design of several aspects of the SNE's one-stop window strategy under a comprehensive information technology approach, providing support for the main information systems of the job placement mechanisms: employment portal, kiosks, the National Telephone-based Employment Service (SNTel), and operation of the Mexican Labor Observatory (OLA) and all its online applications. To migrate to a different provider for these services would entail substantial costs that are critical for the STPS. In addition to the economic costs (market studies have found INFOTEC's costs to be within the market range), there are costs in terms of the learning curve and knowledge of the labor market environment, where the STPS has invested a great deal of time and resources in training and educating this provider. In addition, internal and external procedures have been standardized, so reimplementation and retraining would entail steep economic and opportunity costs. For the above reasons, this direct contracting is based on paragraphs 3.6(a) and 3.6(b) of the policies for the procurement of works and goods (document GN-2349-9) of March 2011.
- SNE Call Center. This service may be contracted directly from the firm TOPTel for the following reasons: (i) TOPTel has been awarded two continuous multiyear contracts under national competitive bidding, in accordance with national laws. The nonconsulting services provided by this firm have been uninterrupted, and there is a high degree of specialized interaction with the systems supported by INFOTEC, as a result of the years of assistance and learning with STPS for both providers. The services provided by TOPTel are organized on the same technological platform based on voice and data servers, and include value-added services such as: (i) making appointments through a Web application; (ii) SNE labor exchange services between companies, and intake of job offers; (iii) updating the database of job offers;

(iv) monitoring the program outcomes for job seekers and companies; (v) corroborating the information reported by companies in the employment portal and validating vacancies for posting or removal from the portal; (vi) notifying agricultural and rural laborers who participate in the seasonal agricultural workers program in Canada when new requests arrive from that country; and (vii) conducting national surveys to learn about the effects and placement outcomes of job seekers and evaluating satisfaction with the services. In addition, the telephone company operators are trained in job counseling, and, if TOPTTEL's services are not renewed, a large training effort will be required that risks jeopardizing the quality of the assistance provided. Furthermore, given the users profiles, their special character, language, and educational or cultural background require a service provided by personnel familiar with local features and the SNE's job placement protocol. This direct contracting is based on paragraph 3.6(a) of the policies for the procurement of works and goods (document GN-2349-9) of March 2011, and reflects elements of paragraph 3.10, points (a) and (d) of policies for the selecting and contracting of consulting services (document GN-2350-9) of March 2011.

Activity	Type of bidding	Estimated date	Estimated amount (US\$000s)
Works			
Remodeling of approximately 163 offices around the country	Shopping	2013	1,851.9
Goods			
Mobile units to expand coverage	NCB	2014-2015	888.9
Nonconsulting services			
Comprehensive information technology services	Direct contracting	2013-2016	13,100.0
Call center	Direct contracting	2013-2016	10,300.0

- b. **Selection and contracting of consultants:** Contracts for consulting services will use the standard request for proposals agreed upon by the Bank and the SPF, including contracts for individual consultants, which will be based on a comparison of the qualifications of at least three candidates. The model contracts for individual consultants agreed on with the Bank can be consulted on the SPF's website at www.funcionpublica.gob.mx.

The following services may be contracted through single-source selection:

- National Institute of Statistics, Geography, and Information (INEGI) may be contracted directly for up to US\$26,200,000, to conduct the surveys to track the unemployed and active workers, given the unique nature of the official data it produces. INEGI has provided its services in a satisfactory manner thus far, and was also contracted directly in Phase II of the multiphase program.

- Colegio de la Frontera Norte (COLEF) may be contracted directly for up to US\$1,300,000, to conduct surveys of migration at Mexico’s northern border and southern border. This single-source selection is justified, given the COLEF’s unique specialization and experience as an authority in the region, and language capability to transfer knowledge and experience to similar institutions in other parts of the world. COLEF was involved in the earlier phases of the PACE program, and its continued involvement has the advantages of maintaining the rigorous technical approach of the surveys, the reliability of the statistics generated, and the benefits deriving from the experience gained and professional reliability demonstrated by this institution specializing in migratory flows. COLEF has provided its services in a satisfactory manner, and was also contracted directly in Phase II of the multiphase program.

As mentioned, this single-source selection is allowable, pursuant to paragraph 3.10, points (a) and (d), of the “Policies for the selection and contracting of consultants financed by the Inter-American Development Bank” (document GN-2350-9) of March 2011.

Activity	Type of bidding	Estimated date	Estimated amount (US\$000s)
Firms²			
National Occupational and Employment Survey (ENOE). INEGI	Direct contracting	2013-2016	14,505.9
Education, Training, and Employment Module (MECE). INEGI	Direct contracting	2013	750.5
National Microenterprise Survey (ENAMIN). INEGI	Direct contracting	2014 y 2016	2,574.7
Child Labor Module (MTI). INEGI	Direct contracting	2013 y 2015	1,701.3
Job Placement and Tenure Survey (ENCOPE), establishment of the treatment and comparator groups. INEGI	Direct contracting	2013-2014	6,666.7
Survey of Migration at Mexico’s Northern Border (EMIF Norte). COLEF	Direct contracting	2013-2016	780.8
Survey of Migration at Mexico’s Southern Border (EMIF Sur). COLEF	Direct contracting	2013-2016	516.7
External audits	Direct contracting	2013-2016	160.0

2. Table of threshold amounts (US\$)

Works			Goods ³			Consulting services	
International competitive bidding	National competitive bidding	Shopping	International competitive bidding	National competitive bidding	Shopping	International publicity consulting	Short list 100% national
> 15,000,000	< 15,000,000 and > 500,000	< 500,000	≥ 3,000,000	< 3,000,000 and > 100,000	< 100,000	> 200,000	< 500,000

² In the case of consulting services, the short list may be comprised of firms of different nationalities. See “Policies for the selection and contracting of consultants financed by the Inter-American Development Bank” (document GN-2350-9), paragraph 2.6.

³ Includes nonconsulting services.

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3. Procurement supervision

In view of the program's low level of fiduciary risk, one inspection visit has been planned each year. The ex post review of procurements will be performed by an external audit firm, which will deliver a special file with the procurement report, in accordance with the terms of reference agreed upon by the IDB and the SFP. All direct contracts for works, goods, and nonconsulting services will be subject to ex ante review, as will all procurements exceeding the thresholds for ex post review established in the following table.

Thresholds for ex post review (US\$)			
Works	Goods	Consulting services (firms)	Consulting services (individual consultants)
≥ 15,000,000	≥ 3,000,000	≥ 500,000	≥ 100,000

4. Records and files

Records are to be physically located at the relevant offices of the STPS under adequate security. The formats or procedures agreed upon and described in the program Operating Regulations are to be used for the preparation and safekeeping of program reports.

VI. Financial management

1. Programming and budget

STPS funding is budgeted and subject to the planning regulations applicable to federal government institutions. The CGSNE is responsible for coordinating the programming of resources for monthly transfers to the OSNEs and for monitoring the execution of such resources, review, and reporting to the DGPP. The DGPP is responsible for reviewing the execution reports, applying the relevant exchange rate, and preparing disbursement requests for submittal to NAFIN and subsequently to the IDB.

In general, because of the decentralization of financial execution and the verification of expenditures eligible for financing, the resources used between January and October of a given fiscal year are submitted to the IDB for reimbursement (the advance of funds modality is not used) in the same year, and the amounts used between November and December are submitted to the IDB during the first quarter of the following year. The STPS has extensive experience with IDB operations, as do the officials responsible for financial matters at the federal level, so no difficulties are anticipated in program execution.

2. Accounting and information systems

For execution of the budgeted federal resources, the CGSNE of the STPS issues a monthly order to transfer funds to each SNE in the states / OSNE for activities and payments on all their programs, including the IDB-financed programs, differentiating, with digit two in the

accounting, the funds corresponding to expenditures chargeable to the IDB source from those chargeable to the local counterpart. The transfers are made by the Federal Treasury (TESOFE) and deposited directly into the specific accounts of each jurisdiction for the federal resources of each program. Each SNE in the states enters an itemized account of the use of funds transferred and payments made in domestic currency in the Employment Support Program Information System (SISPAE). These entries are consolidated and reviewed at the central level for subsequent submittal to the DGPP, which is responsible for review and conversion into dollars for the submittal of requests to NAFIN, and later to the IDB. Accounting is on a cash basis, particularly because the beneficiaries must meet certain participation requirements in order to be eligible for the financial benefits. The Government of Mexico passed the Government Accounting Act, applicable throughout the country, in 2009, promoting the International Public Sector Accounting Standards.

The executing agency will include financial execution of the program in its status reports. The external audits of previous loans, as well as loan 2219/OC-ME now in execution, have received clean opinions.

3. Disbursements and cash flow (in coordination with use or nonuse of the national cash management system)

As noted in the preceding paragraph, the cash flow of the states is coordinated by CGSNE. In terms of the flow of resources with the IDB, for the present operation, as for the preceding ones, the executing agency is not expected to request advances from the Bank, and disbursements will take the form of reimbursements of expenditures incurred on dates and in amounts approved by the Department of Finance and Public Credit (SHCP). The IDB resources will be deposited in a NAFIN account used exclusively for IDB programs. NAFIN transfers the entire disbursement to TESOFE on the same day received, so as to avoid charges on earnings and fines.

4. Internal control and internal audit

The STPS has an internal control unit (OIC) that performs internal audits. The coordinators of the OIC's activities report directly to the SFP, while the other OIC personnel are STPS staff or contractors who report to the OIC senior management. Each year, the SFP coordinates the OIC's activities and work plan in each agency of the federal government. The universe of transactions subject to OIC review at the federal level of the STPS includes transactions with the loan proceeds. In addition, the OIC is responsible for supporting the financial audits of IDB-financed programs, and for monitoring the timely implementation of the external auditor's recommendations.

5. External control and reports

External control of the STPS is conducted annually by the Federal Audit Office (ASF). The items reviewed vary depending on the risk analysis determined by the ASF, and its reports are delivered 14 months after the close of the fiscal year. For the programs executed with the resources of international financial institutions such as the IDB, country laws and regulations make the External Audit Office of the SFP responsible for evaluation of processes, appointing and negotiating contracts with external auditors to conduct the audits pursuant to the contractual requirements of the respective programs. Once the auditor is

appointed, STPS is responsible for the contract and all resulting payments. To facilitate the contracting process, owing to certain restrictions and processes for contracts with local counterpart resources, under this program the audits will be eligible for financing.

In Mexico, the general terms of reference for audits of operations with the Mexican government have been harmonized with the IDB, the World Bank, and the SFP, and training workshops are conducted each year for the executing agencies and external auditors. NAFIN, as financial agent, is responsible for monitoring the actions required for timely delivery of the audited financial statements. As mentioned earlier, the audited financial statements for previous loans received a clean opinion, and no variations are expected in the audited financial statements for this program.

6. Financial supervision plan

Supervision activity	Supervision plan			
	Type and scope	Frequency	Responsibility	
			Bank	Third party
OPERATIONAL	Review of eligible portfolio with the executing agency	Periodic	Technical team	
	Ex post review of disbursements	Annual	Fiduciary team	External auditor
FINANCIAL	Inspection visits / analysis of internal controls and control environment	Annual 2x	Technical and fiduciary teams	
	Annual allocation of budget resources necessary for project execution	Annual	Fiduciary team – End	Executing agency
COMPLIANCE	Delivery of audited financial statements	Annual	Fiduciary team – End	External auditor
	Conditions precedent to the first disbursement	Once	Technical and fiduciary teams	

7. Execution arrangements

Program execution will be decentralized, and each state/OSNE will receive resources from the federal budget. See points I and II above for more details. No problems are anticipated in the execution of the program.

8. Other financial management agreements and requirements

The bulk of the program consists of other costs that include grants for on-the-job training and subsidies in kind for initiatives to promote self-employment or, in the case of reallocated goods, support for their reinstallation.

Activity	Type of bidding	Estimated date	Estimated amount (US\$000s)
Other			
Training grants	N/A	N/A	296,296.3
Subsidies and support for initiatives to promote self-employment	N/A	N/A	52,334

Training grants will be made to enable job seekers to find work and, in cases of economic contingency, for workers at risk of losing their jobs.

The subsidies in kind will be for up to approximately US\$2,000 (25,000 Mexican pesos) per beneficiary, up to a ceiling of US\$10,000 per self-employment initiative. The subsidies will be provided in kind for the operation of a self-employed business. For the subsidy in kind for reallocated goods, the maximum support will be 5,000 Mexican pesos per beneficiary.

The STPS has reported that the average cost of each subsidy is about US\$2,500 per initiative, and that 90.9% (2,995) of the 3,294 self-employment initiatives in 2011 did not exceed US\$5,000; 8.1% (265) of the remaining subsidies were between US\$5,000 and US\$8,000; and just 1% (34) were between US\$8,000 and US\$10,000. A nonexhaustive list of more than 500 items procured in 2011 is attached, showing the nature and diversity of the goods in kind delivered under the subsidies to promote self-employment: [IDBDOCS-#36722943](#).