

LABOR MARKETS MODERNIZATION PROJECT II

(ME-0186)

EXECUTIVE SUMMARY

BORROWER: Nacional Financiera, S.N.C. (NAFIN)
GUARANTOR: The Government of the United Mexican States
EXECUTING AGENCY: Secretariat of Labor and Social Welfare (STPS)

AMOUNT AND SOURCE:	<u>First Phase</u>	<u>Second Phase</u>
IDB:	US\$250.0 mill.	US\$200.0 mill.(OC)
Local counterpart:	US\$166.700 mill.	US\$233.300 mill.
Subtotal:	US\$416.700 mill.	US\$433.300 mill.
Total:	US\$850 million	

FINANCIAL TERMS AND CONDITIONS:	Amortization period:	20 years
	Grace period:	3 years (Phase I)
	Disbursement period:	3 years (Phase I)
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0,75% annually on undisbursed balance
	Currency:	US Dollars from the Single Currency Facility

BACKGROUND: The proposed project would be the first comprehensive labor market project financed by the Bank in Latin America, and the first long-term operation the Bank will finance in the labor market sector in Mexico.

The proposed Labor Markets Modernization Project II, conceptualized and fully analyzed as one operation with a total estimated cost of US\$850 million (Bank financing US\$450 million) will be implemented in **two phases**. Each phase will be supported by a separate Bank loan (US\$250 million and US\$200 million, respectively) to be executed over a a three-year period for Phase I and a two-year period for Phase II. The approval of the second phase will be triggered by verification that, at least, 50% of the resources of Bank financing for Phase I have been disbursed and that satisfactory progress of the project has been made. A memorandum outlining the

status of disbursements targets and performance achievements would then be presented to the Board of Directors requesting the approval for the continuation of the second phase of the project.

OBJECTIVES: The main objective is to promote labor mobility, employment potential, and workplace productivity by encouraging a more efficient operation of the labor market and enhance sector capacity for policy planning, analysis and programming.

DESCRIPTION: The project has been organized into the following four subprograms, which will start with Phase I and will continue with Phase II:

Subprogram 1: Improving productivity in microenterprises, small and medium-sized enterprises (MSMEs) - Productivity enhancement program (CIMO) (US\$ 134.6 million or 29.9% of the Bank financing). This subprogram aims to increase the productivity and competitiveness of MSMEs and their workforce. The project would provide incentives for MSMEs to invest in on-the-job training and technical assistance to improve their organization and production processes. The STPS essentially plays a brokering and facilitating role to help focus the technical assistance and training support where it is most needed. The enterprises have an increasing participation the costs of these activities. Activities to be financed by the Bank under this subprogram include: (a) extending CIMO coverage by increasing the number of service delivery units, the number of staff in each unit, and upgrading management information systems; (b) enhancing CIMO services by increasing matching funds for technical assistance and worker training and new activities such as social marketing to increase program impact; and (c) establishing a framework for turning over the operation of this program to a public-private partnership. The project will finance technical assistance and consultative meetings to promote this framework.

Subprogram 2: Job placement for unemployed workers (SNE/PROBECAT) (US\$275.2 million or 61.2% of the Bank financing). This subprogram aims to reduce the hiring and job search cost faced by firms and workers, and to increase the placement rate of unemployed trainees. Specific activities to be financed by the Bank include: (a) job placement services where unemployed workers will benefit through improved counseling and placement services

offered by the National Employment Service (SNE); and (b) short-term job training assistance. The Bank will also finance the strengthening of employment and training service programs, a special program for less skilled workers, and three new pilot projects, training courses and stipends for unemployed workers, training of employment service providers, counseling, and monitoring activities.

Subprogram 3: Policy, evaluation and institutional development (US\$14.8 million or 3.3% of Bank financing). This subprogram aims to establish an integrated strategic planning framework for labor policy management that will strengthen the capacity of the sector to design, analyze, and implement labor market policies. The focus will be on identifying regulatory reforms that contribute to eliminating remaining barriers to productivity. The Bank will finance a series of labor market studies, improvements of the labor market information systems, labor market surveys, in-house and external policy and research, and program evaluations which support planning and program development.

Subprogram 4: Modernization of workplace practices (US\$20.9 million or 4.6% of the Bank financing). This subprogram aims to reduce the administrative, procedural, and regulatory barriers that hinder the growth of workplace productivity in the areas of individual and collective labor agreements and conflicts, occupational safety, and training and productivity. Activities to be financed by the Bank include: (a) information systems, equipment and technology to streamline proceedings, reduce processing times, and enhance the accuracy of records; (b) a data base system to systematize legal consultations; (c) actions directed at cutting redtape related to training registration requirements; (d) two pilot projects to test cost-effective methodologies for the training of trainers at the sector and firm level; (e) mechanisms to certify private units in charge of controlling compliance with occupational safety regulations; and (f) a pilot project to design and implement preventive programs in activities with high occupation safety risks.

Cross cutting activities. All the activities proposed for the project will also benefit from the introduction and/or expansion of information systems. The proposed project will introduce, expand and/or consolidate various management information systems

(MIS) and communication networks to support the activities of the project (US\$19.9 million).

Complementarity of the subprograms of the project. The Bank, through the project, will support government efforts to increase the productivity of Mexican enterprises and workers in the context of a comprehensive labor market modernization strategy. Although each one of the four subprograms will have a life of its own, they are interrelated, because the activities supported by the project will provide a basis for improving labor market efficiency. For example, the link to enterprises under **Subprogram 1** provides information on changing skills demands, employment and production trends that can help improve the job placement activities of **Subprogram 2**. **Subprogram 2**, in turn, can facilitate the identification of workers enterprises may need as these develop new production schemes. For its part, the integration of program evaluation and policy research under **Subprogram 3** will improve overall labor market policy decision-making and program planning. Finally, the modernization of workplace practices under **Subprogram 4** will help eliminate remaining barriers to productivity which will benefit all enterprises and may increase access to on-the-job training and job placement opportunities for workers in general.

**ENVIRONMENTAL
CLASSIFICATION:**

The Environmental Committee, at its meeting of April 30, 1996, classified this as a Category II operation because most of the activities are concentrated in training, studies, and policy and institutional strengthening. It was also agreed that, whenever appropriate, and specially in those training activities that might have some kind on environmental impact, the Bank's Environmental Division will advise STPS on the pertinent strategies and actions.

BENEFITS:

Subprogram 1: Improving productivity in MSMEs (CIMO). The project will provide direct benefits to approximately 200,000 enterprises (553,000 enterprise-based events) and 750,000 workers. Project benefits, however, will extend beyond the participating enterprises. The project will significantly expand its outreach and social marketing activities to ensure that a larger number of enterprises and industries benefit from the demonstration effect of the new program. Through the increased involvement of enterprises in technical support activities, and the promotion of inter-

enterprise cooperation, this subprogram will improve the quality of the training, information, technical support and technologies available to MSMEs.

Subprogram 2: Job placement for unemployed workers. The project will benefit up to 4.7 million workers through job placement assistance and job information services, and 2.2 million workers through its short-term training assistance programs. The project will increase job placement rates from an average of 35% to 45% for referred services and from 60% to 80% for training assistance beneficiaries. Of the beneficiaries assisted with short term training, 35% will be placed in on-the-job training programs where they are more likely to secure productive employment.

Subprogram 3: Policy evaluation and institutional development. The project will establish an integrated strategic planning framework, and will strengthen the capacity in the sector to conduct labor market policies analysis. A research network outside the STPS will be established. Better statistical information, and more publications on labor market issues will be available to the public. It is expected that by the end of the project 240 new studies (including evaluations of CIMO and PROBECAT) will have been produced, 150 research fellowships will have been granted, 14 surveys collected, and 195 publications issued.

Subprogram 4: Modernization of workplace practices. The project will reduce costs associated with conflict resolution through arbitration and collective bargaining. The project will reduce the obstacles firms and workers face when complying with regulatory and administrative requirements regarding training and occupational safety. It is expected that these activities will contribute to a better understanding of the regulatory framework and future discussions on these matters.

Project impact on women. Women will benefit from the improvements to be introduced in the different subprograms, especially CIMO's identification of best practices in integrating women in the project. Expected benefits will impact women as workers and entrepreneurs (especially those in the microenterprise sector). Furthermore, improving the visibility of the successes the program has had with women is expected to attract more enterprises owned by women, as well as enterprises with large numbers of female employees. Subprogram 2 incorporates improved

methodologies and activities in training and placement of women who are already receiving over 30% of the PROBECAT scholarships. Finally, the studies, research and surveys included in Subprogram 3 will greatly enhance the overall improvement of the analysis and evaluation of gender issues in areas crucial to the participation of women in the labor market.

RISKS:

The major **institutional risk** would seem to lie in the proposed role for the private sector in the CIMO productivity subprogram. While the problems experienced in this area by existing programs have been carefully analyzed, and while the proposals have been designed accordingly, it remains true that the willingness of business associations to accept greater responsibility will only be verified in the course of their future actions. To mitigate this risk, the project envisages extensive consultation with, and active participation of, the business associations concerning the new arrangements; in addition, the agreed framework will include appropriate incentives. The monitoring arrangements will enable the project team to keep track of progress and help make the inevitable adjustments.

The project team concluded that although the project will require substantial counterpart resources, the financial risks were low given the priority assigned by the Government of Mexico to this sector and the budgetary resources that have been allocated to these projects over the last two years. Even at times of severe fiscal contraction, the government has viewed these programs as an agile and useful compensation mechanism to workers affected by adverse economic shocks. The experience of the recent past thus suggests that the risk of an economic downturn inducing a reduction in fiscal commitments to the project is quite low.

The risk that the services offered by the project will not be attractive to the planned beneficiaries, particularly MSMEs and unemployed workers, is quite limited. Firstly, the subprograms have been designed taking into account the extensive and successful track record of existing programs. Secondly, the subprograms are equipped with arrangements that ensure that they remain responsive to demand. In particular, the cost-sharing requirements established with enterprises in both CIMO and PROBECAT, function to keep the content of the services relevant to market conditions.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The proposed project is fully consistent with the Bank's strategy which aims, in the **short-term**, to support the government's efforts to mitigate the negative impact of the current crisis and, in the **medium-term**, to facilitate the process of economic and social transition process currently underway in Mexico.

The Bank strategy in relation to increasing productivity and labor market, as agreed with the government for the 1996-1997 period is to support MSMEs and to improve the operation of labor markets by supporting training, labor mobility and policy analysis. Improving MSMEs access to credit, technical assistance and training is key to their capacity to enhance productivity and fully justifies Bank support.

Indeed, the proposed project addresses the key elements of the Bank's labor market and productivity strategy. Moreover, project design highlights the importance of the contribution of women to economic growth in the form of targeted activities and incentives to ensure the project benefits more women.

**RETROACTIVE
FINANCING:**

Retroactive financing for Phase I of eligible expenditures for key activities would be required to continue the preparation of designs and terms of reference for new pilot activities, some studies, and surveys requested by the Bank. Similarly, resources are required to continue upgrading informations systems that will provide continuous support to all the activities envisioned in these subprograms, and which have been reviewed and accepted by the Bank. To this effect, it is recommended to approve US\$8 million in retroactive financing for expenditures 12 months prior to Bank approval.

PROCUREMENT:

The procurement of equipment, materials and other goods and services with loan resources, will be carried out according to the guidelines and procedures set forth in Annex B of the Loan Contract. The amounts over which public international bidding will be required will be US\$350,000 for goods and services and US\$5 million for works. The contracting of studies and consulting services included in the project will be carried out according to the guidelines and procedures set forth in Annex C of the Loan Contract. However, it is recommended that the Bank extends the contract of existing individual consultants without competition for the consultants of the on-going program; and (b) allows the direct

hiring of Instituto Nacional de Estadísticas, Geografía e Información to carry out the surveys under Subprogram 3.

**EIGHTH
REPLENISHMENT
POVERTY
TARGETING:**

The activities included in Subprogram 2, job placement for unemployed workers (SNE/PROBECAT) (US\$275.2 million for the two phases), are almost entirely directed to benefit low-income groups throughout the country. Therefore, it complies partially with the guidelines for Bank's participation in poverty reduction and social equity programs set forth in the Report on the Eighth General Increase in the Resources of the Bank.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

The following conditions will be incorporated in the contract for Phase I:

a. Conditions prior to first disbursement:

- Agreement for resource allocation (par. 3.1)
- Annual operative program (par. 3.24)

b. Special conditions for disbursement of:

Subprogram 2:

- Terms of reference for pilot projects (par. 2.25-2.28)
- Evaluation report of PILEOT (par. 2.29)

Subprogram 3:

- Criteria and methodology for selection of fellowship candidates (par. 2.38)

c. Other conditions:

- Terms of reference for pilot activities (par. 2.45)
- Annual meetings for supervision and evaluation (par. 3.22)
- Auditing (Par. 3.22)
- Benchmarks (Par. 4.15)

Proposed approval
procedures for
Phase II

The Bank's approval of Phase II will be conditioned to the fulfillment of the following conditions: (a) that, at least, 50% of the resources of Phase I have been disbursed; and (b) that satisfactory progress of the project has been made. (see Par. 3.4)

I. BACKGROUND

A. Socioeconomic context

- 1.1 Mexico presents daunting challenges to social and labor market policy makers. Over the last four decades, the Mexican economy has undergone dramatic changes as it shifted from a highly protected economy to one of the most open economies in the region. This process prompted far reaching changes in the production and employment structure: the proportion of the labor force employed in the manufacturing and services sectors has more than tripled since 1950 to 74% in 1990, and output of these sectors accounted in 1990 for 92% of total output. At the same time, illiteracy rates have fallen from 52% in 1950 to 11% in 1990.
- 1.2 During the last decade, significant advances have been made in liberalizing and privatizing key sectors in the economy, and laying the foundations for sustained private sector-led growth. Key elements of reform involved the deregulation of sectors such as transport and communications, substantial reform of the "ejido" system, the selling or closing of many state enterprises, and significant cuts in fiscal expenditures.
- 1.3 A comprehensive trade reform enacted with the North America Free Trade Agreement (NAFTA), turned Mexico in one of the most open economies in the world. NAFTA has represented for Mexico a further step in the consolidation of a structural reform process, aimed at achieving integration in the world economy. However, economic opening and integration will increase sectoral and regional labor mobility. To reduce the social cost of increased mobility, policies need to be designed to address both the increased demand for new labor force skills in expanding sectors, and the reduction of labor demand in contracting sectors. Labor market policies are crucial tools in shaping the process of employment creation and elimination.
- 1.4 The macroeconomic adjustments prompted by the 1994 crisis resulted in significant contractions in both income and employment. One measure of this impact is the rate of underemployment defined here as all those workers registered as unemployed, plus those that worked 15 hours or less in one week. In 1990 the rate stood at 6.1%, rising slightly to 7.8 in 1994; at the peak of the crisis in mid-1995 the underemployment rate reached 12%). ^{1/} The number of Social Security affiliates fell by more than 6% between the last quarters of 1994 and 1995. The duration of unemployment also increased in the same period as the percentage of people unemployed

^{1/} If the workers earning less than one minimum wage are taken into account, underemployment peaked at nearly 30% during 1995, falling to 17% by the third quarter of 1996.

for nine weeks or more went from 31% to 42%. Moreover, the peso devaluation resulted in a severe decline in real wages, which fell 20% between the last quarters of 1994 and 1995.

- 1.5 This discouraging panorama changed by mid-1996, showing that Mexico is achieving progress in economic stabilization. Both inflation and interest rates have decreased significantly, the exchange rate is stabilizing, and there are strong signals of economic recovery. During the first half of 1996, gross domestic product (GDP) grew by 3% on an annual basis (resulting from a 1% decline in the first quarter and a 7.2% increase in the second), manufacturing output grew in the same period at 8.9% (mainly as a result of a strong performance of export oriented sectors as auto equipment and machinery that grew by 18%), and the construction sector (a typically pro-cyclical activity) grew 8% during the second quarter. Consequently, employment began to recover and by the third quarter of 1996, the underemployment rate had fallen 10%.

B. The labor market

1. General overview

- 1.6 Despite declining population growth, the economically active population steadily increased at a 4% rate during the last ten years. Out of a population of 95 million the economically active population today is 37.6 million. Youth under 25 years of age represent 32.9% of the workforce and the participation of women increased from 10.4% in 1970 to 30% in 1996. Moreover, the participation rates of workers with higher levels of schooling is increasing steadily.
- 1.7 The economic developments of the last four decades significantly changed the structure of employment and production and, as a result, the labor market in Mexico today exhibits contrasting characteristics. Some economic sectors, primarily export-oriented, have exhibited important increases in productivity, while significant portions of the market continue to be characterized by low productivity. The more dynamic sectors are experiencing changes similar to those observed in OECD countries: high labor mobility between contracting and expanding industries, a shift from agriculture and manufacturing to services, and higher skill levels demanded from workers resulting from the adoption of new technologies and from the restructuring of production processes.
- 1.8 In contrast, more than a third of the work force is working in the informal sector. This sector, although very heterogenous, is mainly characterized by low productivity, low wage and low skill jobs. Workers receive little or no training and jobs are unstable, leading to frequent spells of unemployment.

2. Key issues

a. Productivity in micro, small and medium-size enterprises (MSMEs)

- 1.9 More than 75% of workers employed in urban areas are concentrated in MSMEs. In 1994, 96% of the registered enterprises were classified as micro (15 workers or less), while large companies (251 or more workers) only represented 2% of total establishments. As in other countries, MSMEs tend to invest a lot less in worker training than larger firms. World Bank estimates, based on the 1988 and 1991 National Labor Force Surveys, indicate that only 9% of workers in micro-enterprises received any on-the-job training (as opposed to 30% in large firms), and that tenure in large firms is 50% longer than in micro and small firms. This points to the need to expand programs that provide incentives to MSMEs to invest in in-service training and other activities to improve their productivity.

b. The structure of unemployment

- 1.10 An analysis of the structure of unemployment in Mexico raises doubts about the ability of the labor market to adjust on its own to the needed structural changes facing Mexican society. Unemployment rates are not even across socio-economic groups: the probability of being unemployed decreases with age and with schooling, while the duration of unemployment spells appears to increase with age. The stagnation of the agricultural sector has increased the flow of migration to urban areas and to the United States, and has forced more women into the labor market to support declining family incomes. This suggests that despite government efforts to respond to new economic and labor market conditions by modernizing its labor market policies, programs that place unemployed workers in jobs be expanded and improved to meet the varying needs of different groups.

c. The regulatory framework for workplace practice

- 1.11 The existing framework of regulations and institutions intended to encourage fair, safe, and efficient workplaces has evolved over time creating a cumbersome and outdated apparatus. In many cases the bureaucratic demands of this apparatus hinders rather than helps the purpose for which it was created. Three specific areas merit particular attention: collective bargaining, occupational safety and health, and mandated training.
- 1.12 **Arbitration and collective bargaining.** In 1995, the agency in charge of workplace conflict resolution received notice of more than 50,000 and registered nearly 7,000 workplace agreements. The agency charged with giving legal counsel to workers and unions dealt with more than 65,000 cases. These agencies all perform

their tasks manually, with records traveling physically between local, state and federal units. The result is unnecessary delay in achieving agreements.

- 1.13 **Mandated training and productivity promotion.** The labor market regulatory framework monitors industry training activities, which creates a series of mechanisms at the federal, state, and local level with which firms must register their training programs. Firms must also create training commissions, integrated by management and workers. The system in general is too formalized, creates additional red tape, is burdensome for firms interested in upgrading the skills of their workers and hinders firms from reporting their training activities.
- 1.14 With regard to the promotion of productivity, the multiplicity of interventions at the federal, state, and local levels generate a lot of duplication and waste of scarce resources. The "Consejos Estatales de Productividad y Competitividad" (CEPROCs), entities where the private sector and federal and local government discuss and adopt agreements on issues related to labor market policies, were designed to coordinate these dispersed efforts but they are generally handicapped since they lack a solid technical basis.
- 1.15 **Occupational safety and health.** The recent approval of the "Reglamento Federal de Seguridad, Higiene y Medio Ambiente", which concentrates in a single legal body the dispersed regulatory framework for occupational safety, has simplified procedures and introduced a more preventive and insurance-oriented approach. This was an indispensable step, although much remains to be done in developing the envisaged apparatus of industry-based compliance.

d. Conclusion

- 1.16 Despite advances made in the modernization of labor market policies, existing programs have not responded on the scale required by Mexico's growing needs. Moreover, structural problems that limit private-sector led growth persist. **Firstly**, overall productivity growth remains slow, reducing the competitiveness of Mexican enterprises and hindering the improvement of living standards of the workforce. **Secondly**, more than half of the labor force needs more training to improve its performance and employability. This situation particularly affects women who tend to have less schooling and lack work experience. **Thirdly**, the capacity of the Mexican public sector to design and implement labor policies is limited by inadequate labor market information systems and insufficient investment in labor market research. **Finally**, the labor market regulatory framework is inadequate for conditions where jobs change rapidly and where employers and workers increasingly share management and problem-solving responsibilities.

1.17 These conclusions point to the importance of focusing policy on:

- a. policies and programs aimed at supporting sustained productivity growth in firms and sectors that can profit from the expansion of trade. This is particularly relevant for small and medium firms which are flexible enough to integrate themselves in international production circuits, but often need to eliminate inefficiencies and barriers to productivity growth;
- b. policies and programs to lower the costs of job search, improve the job-matching process, and train labor in the new skills demanded. This will help workers cope with the increased job mobility and will help preserve the political support base for the adjustment process. Improving the coverage and efficiency of employment services is crucial at this juncture. This, in turn, needs to be backed by changes in the training system (which are already underway) to give a larger role to the private sector in the provision of training, and to increase the relevance of the skills taught; and
- c. changes in labor market regulations and practices, to eliminate distortions and rigidities characteristic of the regulatory framework of a closed and protected economy, and to create incentives for sustained increases in labor productivity.

C. Labor market policies and programs in Mexico: the experience of the Government, the World Bank and the Bank

1. Government priorities and institutions

- 1.18 The government's labor market modernization strategy assigns high priority to: (a) short-term training assistance and employment programs for unemployed workers; (b) providing incentives for enterprises and industries to increase their investments in on-the-job training; (c) reducing the costs of labor mobility and facilitate labor market adjustment processes; (d) extending its productivity enhancement efforts to benefit more firms; and (e) promote labor management cooperation, improving occupational safety, and encouraging industry led productivity and training initiatives. These priorities are reflected in the **National Development Plan 1995-2000**, and were ratified in the Second Presidential Address (September 1, 1996). The plan also acknowledges the increasing participation of women in the workforce (30%) and their important contribution to family income and therefore proposes programs to increase their productivity, employment and training opportunities.
- 1.19 The **Secretariat of Labor and Social Welfare** has, by constitutional mandate, the overall leadership in matters related to employment, labor market issues and regulation, and enforcement of worker training and safety regulations. STPS is also responsible for

supporting the employment and productivity plans and agreements aimed at achieving economic growth and increasing the participation of the private sector.

- 1.20 STPS has developed policies, programs and mechanisms to help workers and enterprises adapt to rapidly changing modes of production, giving a larger role to the private sector. Its programs are well equipped to encourage the attainment of high levels of transferable competencies, to help firms organize actions to improve their productivity, and to facilitate productivity pacts between labor and employers.

2. Policies and programs supported by the IDB and the World Bank

- 1.21 The World Bank has supported Mexico's efforts aimed at increasing labor productivity and improving the quality of technical and vocational training through six projects from 1981 to 1993. In technical training, the World Bank's projects helped establish the National System for Vocational and Technical Education (CONALEP). More recently, the Technical Education and Modernization Project (1994) aimed at making technical education and training more flexible and relevant to labor market needs.
- 1.22 The World Bank's Manpower Training Project (1987) and the ongoing Labor Market Modernization program (1993), which can be seen as precursors to the present project, helped promote a better understanding of the Mexican labor market, improve labor retraining (PROBECAT), and expand CIMO, the program which aimed at enhancing the productivity of the MSMEs.
- 1.23 **The crisis of 1994.** As a response to the financial crisis of December 1994, the Bank and the World Bank co-financed the Program for Essential Social Services (PROSSE), approved in early 1995, to protect the poor and mitigate the adverse effect of the crisis on employment. Both Banks financed employment initiatives under PROSSE. The World Bank supported a substantial expansion of (PROBECAT) already funded under its Labor Market Modernization program, and authorized the introduction of a new program for local employment initiatives (PILEOT). This allowed STPS to channel training and/or reconversion benefits to 410,000 unemployed workers in 1995 and 500,000 in 1996.
- 1.24 The Bank, on the other hand, financed the introduction of a temporary employment assistance program through the Secretariat for Social Development (SEDESOL). It generated employment for the poorest and most affected segments of the population through the financing of simple labor intensive public works projects with a remuneration under the minimum wage. In 1995, 551,000 unemployed workers participated in the program. A valuable lesson from the PROSSE is that the STPS mechanisms that were designed to improve the efficiency of the formal labor markets were adaptable to create income generation for marginalized groups in remote areas.

- 1.25 Since 1994, the Bank has been an active partner in a dialogue with the government to identify ways to develop and refine efforts to promote a more efficient labor market. In July 1995 the Bank, together with the World Bank, co-sponsored a seminar on Labor Market and Employment Policy, thus establishing the political and technical foundations for the present project.
- 1.26 In 1996 the Bank approved the Skills Standards and Certification project (MIF/AT-89), which provides US\$3 million nonreimbursable financing to support industry efforts to develop skill standards. Together with the present project, these operations represent a significant new field of activity for the Bank in Mexico.

3. Major labor market program initiatives

i. Promoting productivity in MSMEs

- 1.27 **Program strategy and scope.** The concept of providing a wide range of services to the MSMEs from a single unit was originally developed by the STPS in 1988, and was expanded in a component of the World Bank's 1993 Labor Market Modernization Program, which helps enterprises access in-service training, technical assistance support and information. Unit staff help enterprises identify their critical weaknesses, whether these are related to the management and organization of production, the quality or skills of their human resource base or their grasp of new technologies. The program with the World Bank envisaged that these activities would be privatized as industry associations took over the role of the STPS.
- 1.28 The CIMO component was originally planned to provide services to some 35,000 MSMEs, but the latest data indicate that it will have reached more than 45,850 enterprises and 350,000 of their workers by the end of 1996. The component has proven successful in its targeting. Of the enterprises assisted to date, 71% are microenterprises, 21% are small and only 8% are medium-size firms. Of these, 49% were concentrated in manufacturing, 41% in services, and 10% in agro-industry.
- 1.29 **Operational features and financing.** At the local level the program operates through the regional multiple service support units (UPCs) sponsored by approximately 440 industry associations or employer organizations. The staff of these units neither plan nor provide the services required by the client enterprises, but rather act as brokers between enterprises and service providers. Priorities and actions of particular UPCs are determined by local executive committees composed of participating enterprise organization and individual firms. Financing is shared by the beneficiary enterprises, employer organizations, and the federal government. The training and technical assistance services are provided by

private sector consultants and firms. The number of registered service providers doubled from 2,616 in 1994 to 6,000 in 1995 and continues to climb.

- 1.30 Currently enterprises contribute an average of 60% to training costs and 60% to consulting services. The cost-sharing assistance applies only to a maximum of 400 hours of training and 150 consulting hours per year and the fees the program pays are slightly below market rate. Enterprises invest substantially more than the program contributes to these activities. The program is demand-driven, and resources are allocated based on demand emanating from enterprises.
- 1.31 **Evaluation and lessons learned.** In order to evaluate CIMO a cost-benefit study was carried out comparing 248 enterprises that had been supported by CIMO between 1991 and 1994, with a control group of 300 enterprises. The program was found to be cost-effective, particularly for micro- and medium-size enterprises. CIMO beneficiaries (especially micro- and medium-size enterprises engaged in manufacturing) reported higher profits and improved their productivity, organizational schemes, and the quality of their products, at higher rates than the control group. The study also found that CIMO enterprises' investments in training and consulting services significantly exceeded the resources received through the program, and that the firms invested more than they did prior to participating in the program.
- 1.32 The study revealed, however, that the program had a more positive impact on micro- and medium-size enterprises than on small firms, partly because the latter received less productivity and quality oriented technical assistance than the micro- and medium-size enterprises. It is also possible that more of the small firms benefitted by CIMO were in a more precarious position than those in the control group. The new proposed project will introduce better targeting techniques to attract and encourage small firms to opt for integrated technical assistance at an early stage of intervention.
- 1.33 The privatization targets (by 1997, at least 20% of the UPC staff were to be financed by the private sector) have proven to be impracticable. In part this was due to contingent factors related to the 1994 crisis. More fundamentally, however, although about 60 UPCs already have small operational funds made up of association and enterprise contributions, the privatization goal failed to recognize the need for some level of on-going public financing. The proposal for the present project therefore, is to insist on a shift towards greater private sector responsibility in the management and organization of the project while maintaining a role for public sector financial support.

ii. Services to the unemployed

- 1.34 **Program strategy and scope.** The programs designed to deal with the problem of unemployment have two broad strategies: the first is to bring job seekers and job opportunities together more efficiently, by reducing search costs; the second is to provide short-term training to specific categories of unemployed workers, helping them upgrade their skills and qualify for available vacancies. Under the first strategy, the programs provide services such as registration of job seekers and vacancies, job counseling, referral, and job placement; under the second strategy, workers are advised concerning skill requirements, and receive stipends while attending the courses financed by the program.
- 1.35 Under the programs established by the government and the World Bank (PROBECAT) at least 900,000 job seekers were to be counselled; in fact the programs exceeded their target by 56% having counselled 1.4 million workers and provided information service to 2 million individuals by 1996. While the program anticipated training 300,000 job seekers, 400,000 will have benefitted from the scholarships and training by 1997.
- 1.36 **Operational features and financing.** Since 1983, the government has supported programs aimed at facilitating labor mobility and labor market adjustment. These programs are run primarily through the National Employment Service (SNE) and its network of 99 State Employment Offices (SEEs), set up in coordination with the state governments. The financing is shared primarily by federal and state revenue, although participating employers also share some of the training costs.
- 1.37 **Evaluation and lessons learned.** Evaluations of these programs indicate that employment training assistance (PROBECAT) is a cost-effective way to promote labor market reinsertion and can help first-time job seekers secure employment faster than those who do not receive this type of assistance. The tracer studies of beneficiaries and a control group indicate that: (a) the program helped reduce the time and cost associated with job search; (b) participants had a better chance of finding a job and were placed in a shorter timeframe; and (c) most participants found better paying and more stable jobs. However, this study also showed that male displaced workers with work experience and some skills fared better than first-time job seekers such as youth and women. The new proposed project design will place youth and women in on-the-job training where they can gain job experience.
- 1.38 The average placement rate for the job referral service fluctuated between 30% to 40% in correlation with recessionary periods, which is comparable to that of OECD countries (averaging 40%). In PROBECAT 20% of the training assistance actions were executed through on-the-job training and 80% were institution-based training. The average placement rate of workers in on-the-job

training was 93% while the average placement rate of institution-based training was 63%. This far exceeds the placement rates of similar programs in OECD countries which average 60% and 45% in corresponding modalities. The success rate of the on-the-job training is attributable to the requirement that enterprises finance the training and then absorb at least 70% of the participating workers.

- 1.39 The proposed project will seek to increase the share of on-the-job training to at least 35%. In addition, training assistance will be better targeted and will introduce new measures to improve job counseling and job placement support. Job counseling and referral services will be improved through the introduction of complementary activities such as job fairs and employment workshops. Overall, the new project will introduce new mechanisms to better link training and job placement support activities. It is expected that these design changes will allow the project to increase its placement to 45% for referrals and up to 80% in its training assistance categories.

iii. Development of labor market policies and institutions

- 1.40 The program supported by the World Bank included a component that was intended to improve the quality and the distribution of labor market information, and to strengthen STPS capacity to design, operate and evaluate labor market programs.
- 1.41 Important advances were made in this area, but discussions with the government during the proposed project preparation also revealed important weaknesses in the assignment of institutional responsibilities within the STPS. In particular, program operations and evaluations were the responsibility of the same department, creating obvious conflicts of interest; in contrast, the responsibilities for studies and for evaluations were assigned to different units, limiting STPS ability to learn from its experience and propose improvements to its own practice. Another problem that was identified related to the hermetic nature of labor market research in Mexico: lacking any mechanisms to foster the capacity of universities and research institutes to perform research, almost all the work was done within the STPS itself, limiting the range of options and ideas that were available to STPS own senior managers. The proposed project will directly address these issues.

D. Rationale for Bank participation and project strategy

- 1.42 The participation of the Bank in the conceptualization, formulation and financing of the proposed project has a number of significant consequences:
 - a. The Bank has encouraged the government to maintain a comprehensive view of the problems of the sector and to extend the scope of the reforms it undertakes.

- b. In a period of budget austerity, Bank financing will permit the significant expansion of those programs that have proven to be successful in promoting labor market efficiency.
 - c. The opportunity to share the risks involved in designing and implementing pilot programs to test innovative interventions, has encouraged the government to accept an unusual degree of experimentation; for its part, the Bank has benefitted (and will continue to benefit, as the programs are implemented) from the opportunity to participate in these innovations.
 - d. The Bank has played a key role in ensuring that the lessons learned from the careful evaluation of existing programs have been incorporated into the design of the proposed components.
- 1.43 The Labor Market Modernization Project proposed here, will consolidate the advances already achieved by the government in this field, will introduce new measures to eliminate barriers to workplace productivity, and will promote regulatory reform. The key features of the proposed project are:
- a. **Improving productivity in MSMEs.** The coverage of CIMO will be expanded substantially, while promoting public-private partnership for project management. This project will explore the possibility of achieving greater economies by assisting groups of firms rather than only servicing individual enterprises.
 - b. **Job placement for unemployed workers.** The focus in this area will be on enhancing and extending the counselling and information services while further increasing the job placement rate of the trainees. To achieve the latter, the project will give greater weight to on-the-job training.
 - c. **Policy development and institutional capacity.** The project will provide a number of incentives and opportunities to increase the role of private and academic institutions in carrying out research and evaluation studies. In particular studies on the effects of regulatory distortions will be carried out to lay the groundwork for fundamental regulatory reform.
 - d. **Modernizing workplace regulation.** Here the project proposes to undertake actions to improve: collective bargaining and arbitration services, regulations concerning industry training, and the enforcement of occupational safety regulation.
 - e. **Cross-cutting activities.** All the activities proposed for the project will be supported by strengthening the relevant information systems. It also takes into account the need to further sensitize STPS programs and practices to **gender issues**. Although neither subprograms 1 or 2 are targeted to women, both

extend important benefits to women entrepreneurs and workers. Despite advances in incorporating gender concerns made under the ongoing program, the impact evaluations of SNE/PROBECAT show lower success rates in placing women in jobs, and CIMO reports less women- than male-owned enterprises approach CIMO for services. During project analysis, STPS and the Bank identified a series of activities to address gender concerns that have been incorporated in the project design (see Annex I-1). These activities take into account the special socio-economic characteristics of women and the need to improve their employability and productivity.

- 1.44 Taking all the above elements into account, the proposed project would be the first comprehensive labor-market program the Bank has financed in Latin America.

E. Bank strategy and Bank portfolio

- 1.45 Bank's strategy which aims, in the **short-term**, to support the government's efforts to mitigate the negative impact of the current crisis and, in the **medium-term**, to facilitate the process of economic and social transition process currently underway in Mexico.
- 1.46 The Bank strategy in relation to increasing productivity and labor market, as agreed with the government for the 1996-1997 period is to support MSMEs and to improve the operation of labor markets by supporting training, labor mobility and policy analysis. Improving MSMEs access to credit, technical assistance and training is key to their capacity to enhance productivity and fully justifies Bank support.
- 1.47 Indeed, the proposed project addresses the key elements of the Bank's labor market and productivity strategy. Moreover, project design highlights the importance of the contribution of women to economic growth in the form of targeted activities and incentives to ensure the project benefits more women.
- 1.48 The Bank's current portfolio with Mexico consists of 18 operations, 13 small projects, including 12 parallel technical cooperations, 15 technical cooperations, and six Multilateral Investment Fund operations, which total US\$5,027 million, of which US\$2,474 million has been disbursed. Twelve of these operations are proceeding without problems, three are disbursing somewhat slower than expected, and one is considered problematic. During the recent programming mission, it was recommended that government authorities review the current budgetary assignment system to allow the timely availability of counterpart resources for the projects financed by the Bank.

II. THE PROJECT, COST AND FINANCING

A. Introduction

- 2.1 The proposed Labor Markets Modernization Project II, conceptualized and fully analyzed as one operation with a total estimated cost of US\$850 million (Bank financing US\$450 million) will be implemented in **two phases**. Each phase will be supported by a separate Bank loan (US\$250 million and US\$200 million, respectively) to be executed over a three-year period for Phase I and a two-year period for Phase II.
- 2.2 The approval of the second phase will be triggered by the fulfillment of pre-established disbursement requirements and achievement of project progress (see Chapter III, Project Execution, for procedures proposed for Board approval of the second phase).

B. Objectives

- 2.3 The main objective is to promote labor mobility, employment potential, and workplace productivity by encouraging a more efficient operation of labor market programs and enhance sector capacity for policy planning, analysis, and programming (see Annex II-1, Logical Framework).

C. Subprograms

- 2.4 The proposed project has been organized into the following four subprograms, which will start with Phase I and will continue during Phase II:

Total IDB US\$134.6 million Phase I: US\$60.3 Phase II: US\$74.3 Improving Productivity in MSMEs (CIMO) SUBPROGRAM 1	Total IDB US\$275.2 million Phase I: US\$164.3 Phase II: US\$110.9 Job Placement for Unemployed (SNE/PROBECAT) SUBPROGRAM 2	Total IDB US\$14.8 million Phase I: US\$8.4 Phase II: US\$6.4 Policy Evaluation and Institutional Development SUBPROGRAM 3	Total IDB US\$20.9 million Phase I: US\$14.5 Phase II: US\$6.4 Modernization of Workplace Practices SUBPROGRAM 4
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- 2.5 For a detailed summary of all the activities to be financed by the Bank with the four subprograms during the two phases, see Annex II-2.

1. Subprogram 1: Improving productivity in MSMEs (CIMO)
(US\$134.6 million)

a. Objective

- 2.6 This subprogram aims to increase the productivity and competitiveness of microenterprises, small, and medium-sized enterprises and their workforce.

b. Activities

i. Extending CIMO coverage (US\$ 35.7million)

- 2.7 The project will provide the technical and financial resources required to help the project extend coverage from 45,850 to approximately 100,000 enterprises and train about 750,000 of their workers through direct assistance activities. These activities will indirectly impact an additional 100,000 enterprises through social marketing and demonstration efforts. This will involve extending the **geographical** and operational coverage.
- 2.8 The CIMO program currently operates with 62 UPCs that broker or facilitate enterprise access to services. The new project would finance the establishment of 10 new UPCs between 1997 and 1999; it will also improve coverage of enterprises from the existing units by increasing staffing levels from an average of three promoters to seven per unit (with a maximum of 12 and minimum of two). The new locations will be selected in response to existing demand from enterprise associations in unattended regions. The total number of promoters would gradually increase from 250 today to 500 by the year 2001. All promoters would be hired as temporary staff and would be financed under the project on a declining basis.
- 2.9 Operational procedures, more efficient communications and information systems to support the new dimensions of the program, and the increased monitoring and reporting requirements, will be implemented. An estimated US\$2.9 million will be provided by the project to develop **management information systems** and related equipment enhancements to support this effort.

ii. Enhancing CIMO services (US\$ 98.9 million)

- 2.10 **Expand assistance to MSMEs.** The new project will provide resources to extend existing services to benefit more firms; these services include in-plant training for workers and management, technical assistance to enhance services, products or organization of the enterprise, and training of in-plant trainers. Existing cost-sharing arrangements will be maintained, although share paid by enterprises will increase.

- 2.11 **Assistance for worker certification.** The project will finance a new category of assistance to help create demand for training activities based on skill standards amongst MSMEs. Under this category which will be introduced in 1998, MSMEs would invest in worker training under the newly created skill standards system. MSMEs would contribute 40% toward the cost, and would receive 60% assistance for up to 10 employees/year. Disbursements against this category will be contingent upon Bank approval of operational guidelines.
- 2.12 **Training and technical assistance support for groups of firms.** To achieve economies of scale and to foster inter-sector or regional cooperation between enterprises, this category of assistance will provide assistance to groups of enterprises. International experience demonstrates that training and information costs, in particular, can be substantially reduced if groups of firms share costs and expertise. The Bank is currently financing a study of CIMO's clustering experience. This study will provide a basis for developing these processes. The cost sharing arrangements would be similar to those applied to individual firms.
- 2.13 **Training of CIMO staff and promoters.** The project will finance a series of training workshops, seminars and networking activities for CIMO staff technical advisors and promoters to fine tune enterprise needs assessment and brokering skills. In addition, the new program will introduce new training modules to orient promoters to new workplace developments. These include: new analysis of distribution of productivity gains, new methods for financial and market analysis, and other topics such as business development, clusters/conglomerates, skills standards and entrepreneurial development.
- 2.14 **Social marketing, demonstration and technical exchange.** The project will finance a series of new activities to extend the demonstration effect of the program to more MSMEs and to encourage the private sector to take greater responsibility for the operation of the program. These include: (a) documentation of demonstration cases and training workshops to disseminate this information to enterprises and associations; (b) production of program brochures, handbooks, videos and documentaries; (c) an extensive social marketing campaign and the organization of outreach activities in coordination with industry and worker associations; (d) four conferences with employer organizations to develop a framework for the transfer of responsibilities to the private sector; and nine seminars on topics such as job creation and gender issues; (e) foreign and national technical assistance activities and observation tours to identify lessons learned from MSMEs support programs; and (f) strengthening the program's ties to other institutions and program rendering support to MSME's.

- 2.15 **Gender related activities.** Building on the success CIMO program has had with women entrepreneurs and their workers, and to ensure the benefits of the program are extended to more women, the new program will highlight the contributions women make to entrepreneurial and workforce development. Best practices and demonstration cases for supporting women will be developed as part of CIMO's social marketing efforts. Moreover, the CIMO promoters will receive specialized training to sensitize them to the contributions women entrepreneurs and workers make to economic growth, to their socio-economic characteristics and to the specific needs of this group.

iii. Increasing private responsibility

- 2.16 The project will encourage the private sector to absorb increasing responsibility for operating the CIMO program, while maintaining a role for the public sector's technical assistance and financing. The main activity will be to convene the 480 national and regional employer organizations and regional executive committees who participate in the current program. The meetings will agree on a viable framework for the shift in responsibility, a schedule of actions on co-financing arrangements. After completion of the third year of financing of this project, disbursements for this Subprogram will be contingent upon the Bank's approval of the agreements on the institutional framework.
- 2.17 The general parameters to achieve this shift are already established. The federal government intends to assimilate the UPCs into business organizations governed by the local executive committees of employer associations. On the legal side, the local executive committees and UPCs will assume independent legal status allowing them to receive funds from government or other sources including revenue generated from the sale of services. About 15 UPCs already have independent legal status and about 60 UPCs have established small operation funds with association and enterprise contributions. Between 1997-2001 it is expected that CIMO promoters will be gradually absorbed by the sponsoring associations, which already cover the administrative costs of the UPC. The project, however, will continue to cover incremental cost for promoters where the expansion of services is required.

2. Subprogram 2: Job placement for unemployed workers (SNE/PROBECAT) (US\$275.2 million)

a. Objective

- 2.18 This subprogram aims to reduce the hiring and job search costs faced by firms and workers, and to increase the placement of unemployed trainees.

b. Activities

2.19 The main activities of this subprogram are:

i. Job placement for unemployed workers (SNE)
(US\$57 million)

2.20 The main purpose of this activity is to increase the efficiency of the employment services and to extend its benefits to more unemployed workers.

2.21 The employment services targets have substantially increased under the project (from 430,000 unemployed workers currently interviewed and counseled yearly to 630,000 under the project). To achieve this the project will provide resources to finance the following activities:

- a. Improve the SNE's linkage with private employment agencies, job banks and training institutions.
- b. Gradually delegate job counseling and job placement responsibilities to outside providers.
- c. Organize more employment fairs and job orientation workshops to facilitate job search.
- d. Provide specialized training to SNE's staff to increase their effectiveness in job counseling and in identifying placement opportunities.
- e. Remodel and upgrade some of the state employment offices installations and equipment.
- f. Provide the SNE's with new databases and upgraded information systems to strengthen the operation of its job placement referral system and the management of its training assistance programs, as well as strengthen its local labor market information gathering and reporting systems.
- g. Introduce new administrative procedures to increasing the operational efficiency of the SEEs.

2.22 An estimated US\$5 million will be provided by the new project to enhance the SNE information system and communication networks.

ii. Short-term job training assistance (PROBECAT)
(US\$218.2 million)

2.23 The project will support an extension of the on-going short term training programs for unemployed workers and introduce three new pilot activities. The training assistance is for unemployed and displaced workers who cannot qualify for existing vacancies since their skills fail to match those in demand. The three new pilot

activities will examine ways to adjust the content of training to meet new demands, and to better link training, job counseling and placement. Over the four years of the project, training assistance will be provided to approximately 2.2 million unemployed and displaced workers in the following categories:

- 2.24 **Institution-based training (escolarizada). Principal program.** For institution-based training, the program will cover training costs and will provide trainee stipends (equal to the regional minimum wage) and transportation costs for an average of three months (maximum six). The PROBECAT contracts training courses from over 400 public and private training institutions. This modality targets the workers most likely to benefit from this type of intervention, namely unemployed workers with prior work experience who need to upgrade their skills to qualify for a new job. It is expected that about 412,500 scholarships will be financed by the end of the project. This modality will now include job search modules and general skills training as part of the occupational skills training course.
- 2.25 **Pilot project.** This pilot project would test design changes that will be introduced in the institution-based training modality (escolarizada), and it will: (a) purchase "integrated job counseling, training and placement services" from external providers; (b) evaluate the cost effectiveness and technical viability of these practices; and (c) propose ways to institutionalize and extend those that are deemed effective throughout the country.
- 2.26 **On-the-job training (mixta). Principal program.** The program will place unemployed workers in on-the-job training (mixta) in medium and large-size enterprises. Trainees receive stipends and transportation cost from the project for no more than two months. All training and additional costs are covered by the enterprise. Although firms are only obligated to hire 70% of the trainees, past experience indicates that on average 93% have been hired. Job seekers without prior work experience will be placed mainly in the on-the-job training modality so that they will gain job experience.
- 2.27 It is expected that about 488,000 scholarships will be financed in this category by the end of the project. The on-the-job training modules now include occupational training, basic skills and job orientation. Enterprises will receive program assistance and materials to introduce these modules. To increase the participation of enterprises in this activity an active promotion will be carried out with business associations. It is expected that after four years, participation in this modality will exceed participation in the institution-based training (escolarizada) modality.
- 2.28 **Pilot project.** This pilot project will test ways of increasing the participation of MSMEs in on-the-job training. The project would finance the design of different mechanisms and evaluate incentives

for MSME participation. For example, the pilot will develop mechanisms to group the demands from several enterprises and finance joint training activities. Initially, the project will finance a maximum of two months of training assistance in this category. It is expected that about 272,000 workers will benefit from this modality by the end of 2001.

- 2.29 **Training for low skilled rural workers.** This program (introduced in 1995 as a pilot program called PILEOT) promotes local employment initiatives by supporting rural and agricultural employment projects. It also trains unemployed workers for work in social services jobs in urban and rural communities. This modality targets lower skill workers in informal segments of the labor market. The project anticipates expanding this modality under the new program but this will be contingent on the evaluation of the pilot. About 565,000 workers will benefit from this initiative if extended through the country after the pilot phase.
- 2.30 **Basic skills pilot project.** The goal of this pilot activity is to identify cost-effective ways of incorporating basic work skills to the training assistance strategy of the program. The rationale for basic skills training is that workers need to have a general understanding of work systems, how to use technology, and possess general problem solving, planning and communication skills to function in the modern workplace. This type of training can be imparted cost effectively through computer aided instruction techniques in the contexts of occupationally specific training. The project will also identify cost sharing mechanisms to introduce these modules in employers training sites and in participating training institutions. The pilot phase program will target younger workers with higher levels of basic education. The pilot project will be rigorously evaluated; if proven successful, the program will be expanded to reach a total of 488,800 workers.
- 2.31 Table II-1 summarizes the above categories and the number of unemployed and displaced workers who will benefit.

TABLE II-1 CATEGORIES AND NUMBER OF SCHOLARSHIPS TO BE GRANTED THROUGH SNE/PROBECAT						
ACTIVITY	1997	1998	1999	2000	2001	TOTAL
Regular institutional based training (escolarizada)	100,000	151,500	104,500	38,500	18,000	412,500
Regular on-the-job training (mixta)	40,000	118,000	125,000	133,000	72,000	488,000
Pilot on-the-job training	10,000	30,000	63,000	100,000	69,000	272,000
Local employment initiatives (PILEOT)	75,000	142,000	138,000	138,000	72,000	565,000
Pilot for basic and technical skills related to employment search and basic skills	10,000	71,000	125,300	191,000	91,500	488,800
TOTAL SCHOLARSHIPS	235,000	512,500	555,800	600,500	322,500	2,262,300

2.32 **Gender related issues.** Special attention will be paid to incorporate women in on-the-job training modality where they are likely to have more success. In addition, job orientation workshops will be developed for women who participated in the institution-based training modality. Successful projects will be documented and replicated by the program and STPS will provide gender training to its staff.

3. Subprogram 3: Policy evaluation and institutional development
(US\$14.8 million)

a. Objective

2.33 This subprogram aims to establish an integrated strategic planning framework for labor policy management that will strengthen the capacity of the sector to design, analyze, and implement labor market policies. The focus will be on identifying regulatory reforms that contribute to eliminating remaining barriers to productivity.

b. Strategy

2.34 The strategy is to provide the necessary instruments for STPS and others to participate in the public dialogue about labor market policies. This subprogram will integrate the evaluation of the active labor market programs (such as CIMO and PROBECAT) with policy research and information activities.

2.35 The new program will foster the development of independent, non-public sector, research capacity on labor market issues by establishing a research program similar to the Bank's research centers network. STPS will annually request proposals through open bids on labor market issues relevant to their programs operation and to general issues of labor market policies.

c. Activities

i. Program evaluation and policy research
(US\$3.9 million)

- 2.36 The CIMO and PROBECAT program evaluations will continue to be realized on an annual basis through accepted methodologies which compare private, social benefits and costs. Terms of reference for each evaluation will be approved by the Bank during each annual supervision mission. Additionally, the program evaluations and supervision missions will benefit from the introduction of a new system of performance indicators for these programs, which will allow STPS to monitor program performance and generate monitoring reports on an ongoing basis.
- 2.37 The project will finance up to 240 studies in four years. The main research topics include:
- a. macroeconomic policy and labor policy;
 - b. effects of the labor market code on productivity and labor market efficiency;
 - c. the impact of active labor market policies and programs;
 - d. labor costs, productivity and competitiveness in manufacturing: determinant and limiting factors;
 - e. women in the labor market;
 - f. cost-benefit analysis of occupational safety measures and enforcement practices; and
 - g. special studies of regional labor market and productivity trends.
- 2.38 Two main partnerships will be developed to enhance research activities. A labor market research network will be created, and a database of research institutions and independent researchers will be used for open bids for studies. An annual labor market research award will be created and 30 under-graduate and graduate fellowships will be granted to students specializing in labor market issues. During negotiation, CGPEET and the Bank will agree upon the criteria and methodology for selecting candidates for these fellowships. STPS will partner with the CEPROC to bring the policy discussions to the state level. STPS and CEPROC will co-sponsor special studies of regional labor markets, which will help strengthen the technical capacity of the CEPROC. Finally, the CGPEET will continue publishing the Labor Report ("Informe Laboral"), a semi-annual report on labor market conditions which is made widely available to the public.

ii. Labor market information system (US\$8.8 million)

- 2.39 This activity will finance the strengthening and further development of the existing labor market information system. This includes: (a) labor market surveys; (b) systematization of survey information; and (c) systematization of STPS operational information.
- 2.40 Fourteen labor market surveys will be conducted during the life of the project. The collection of the surveys will be made by the "Instituto Nacional de Estadísticas, Geografía e Información", a specialized autonomous public statistical institution. The surveys to be collected are:
- a. **National employment survey:** 1998 and 2000 (representative for urban areas and State level), 1999 and 2001 (representative at the national level);
 - b. **National survey on education, training, and employment:** 1999 and 2001 representative at the national level;
 - c. **National survey of micro-enterprises:** 1998 and 2000 representative for urban areas;
 - d. **Annual industrial survey:** 1999 and 2001, manufacturing sector by firm size and 306 sectors;
 - e. **National survey on employment, wages, technology, and training:** 1991 and 2001, representative at the national level; and
 - f. **Two special surveys** on issues to be agreed upon during supervision missions in order to keep flexibility of the survey collection system.

iii. Institutional development (US\$2.1 million)

- 2.41 This activity will finance actions aimed at enhancing the availability of published material on labor market topics and increasing the technical skills of STPS project staff. The first set of actions will support the operation of a documentation service. The service will collect materials published both in Mexico and abroad related to labor market issues and publish two journals and other periodicals dedicated to the diffusion of labor market information and topics. The second set of actions encompasses an ambitious program of specialized training for STPS project staff, including orientation courses for new hires and technical training for research policy staff.
- 2.42 All activities (evaluations, research, labor market information systems and surveys) will include a **gender** analysis and sex disaggregated data. The research agenda specifically includes a

study of the role of women in the labor market. Moreover, and whenever appropriate, STPS research and policy staff will receive specialized training on gender issues as they relate to the labor market issues.

- 2.43 With regard to information systems requirements, an estimated US\$3 million will be provided by the new project to integrate existing information systems to improve the availability, timeliness and dissemination of labor market information and upgrade equipment.

4. Subprogram 4: Modernization of workplace practices
(US\$20.9 million)

a. Objective

- 2.44 This subprogram aims to reduce the administrative, procedural, and regulatory barriers that hinder the growth of workplace productivity through technical and operational improvement of STPS services, regulatory functions, and programs in the areas of individual and collective labor agreements and conflicts, occupational safety, and training and productivity.

b. Activities

- 2.45 The project will finance an analysis of the impact of the regulatory framework, procedures and practices on firms and workers in the four key areas. The results of the analysis will be the basis for developing pilot projects and to further exchange views on regulatory issues. The terms of reference for the development of the pilot projects will be agreed between the Bank and the government during the supervision missions. Disbursement of funds under this activity will be contingent on Bank satisfaction with terms of reference for the activities and pilot projects described below.

i. Arbitration and collective bargaining (US\$8.1 million)

- 2.46 The project will initially finance: (a) information systems, equipment and technology to streamline proceedings, reduce processing times, and enhance the accuracy of the records; and (b) a system of data bases to systematize legal consultations. It is expected that these actions will reduce processing time by 50%. The data base for legal consultation will be available to all interested parties. In the second phase of financing the project will support initiatives to encourage regulatory reforms identified through analysis that would be supported in the first phase.

ii. Training and productivity (US\$2.6 million)

- 2.47 The project will finance activities directed at cutting redtape related to training registration requirements. It will establish a

framework for the development of productivity incentives systems for workers. Information on experiences both at the national and international level will be collected. Best practices will be disseminated through publications and seminars to regional chambers of industry and local delegations of the STPS.

- 2.48 The project will also finance two pilot projects in the apparel industry to test cost effective methodologies to train multiplying agents at the sector and firm level. These activities will be complemented with analysis of the impact of training on productivity improvements at the firm level, development of methodologies to detect training needs, and use of distant learning materials.

iii. Occupational safety and health (US\$2.9 million)

- 2.49 The project will finance the development of mechanisms to certify private Verification Units, which will be in charge of controlling compliance with safety regulations and of counseling firms in the development of preventive and remedial programs.
- 2.50 A pilot program will be created to test cost effective methodologies to design and implement preventive programs in activities with high occupation safety risks. Terms of reference for this pilot will be agreed upon during supervision missions. The project will also finance cost-benefit analysis of the practices and training for prevention of occupational safety risks.

iv. Decentralization of planning activities
(US\$7.3 million)

- 2.51 The multiplicity of labor market interventions at the federal, state, and local levels generate duplication and waste. The CEPROC's, agencies where the private sector and federal and local government discuss and adopt agreements on labor market policies, were supposed to provide coordination. However, the CEPROC's lack a solid technical basis. To complement the activities planned under Subprogram 3 in studying local labor markets, this activity will finance pilot projects to strengthen the technical and planning capacity of the CEPROC's. Terms of reference for the pilot projects will be agreed during supervision missions.
- 2.52 With regard to **information systems** requirements, an estimated US\$9 million will be provided by the new project for the implementation of an integrated information network at the local, national and international levels and to modernize administrative procedures for labor market services. The new project will finance information system development associated to the proposed network, together with the installation of 46 servers, 1200 workstations and other equipment (routers, modems) in the existing labor market service agencies.

D. Project cost and financing

- 2.53 The total cost of the project has been estimated at the equivalent of US\$850 million and will be divided in two phases. The Bank will finance, through the Single Currency Facility of the Ordinary Capital (OC) resources, in U.S. dollars, a loan in the amount of US\$250 million during the first phase, and a loan for US\$200 million during the second phase. The total local counterpart, in the amount of US\$400 million, will be provided by the government. Details are presented in Table II-2.

TABLE II-2 COST AND FINANCING (in US\$000)									
		PHASE I			PHASE II			TOTAL	%
Subprograms		IDB	Local	Subtotal	IDB	Local	Subtotal		
1	Improving productivity in MSMEs	60,300	42,900	103,200	74,300	46,100	120,400	223,600	26.31
2	Job placement for unemployed workers	164,250	105,800	270,050	110,950	164,800	275,750	545,800	64.21
3	Policy evaluation and institutional development	8,400	8,600	17,000	6,400	11,000	17,400	34,400	4.05
4	Modernization of workplace practices	14,550	9,400	23,950	6,350	11,400	17,750	41,700	4.91
5	Financial costs	2,500	0	2,500	2,000	0	2,000	4,500	0.53
	TOTAL	250,000	166,700	416,700	200,000	233,300	433,300	850,000	100.0
Phases I and II: IDB: US\$450 million. MEXICO: US\$400 million. TOTAL: US\$850 million									
Total percentages phases I and II: IDB: 52.9%. MEXICO: 47.1%. TOTAL: 100%.									

E. Financial costs

- 2.54 Only US\$4.5 million for supervision (FIV) has been included in this category (US\$2.5 million in the first phase, and US\$2 million in the second phase) since there is an agreement that the interests and credit commission will be paid directly to the Bank by the Government of Mexico.

F. Sources and conditions of Bank financing

- 2.55 The Bank's financing in the proposed project will be equivalent to US\$450 million and will be divided in two phases, in U.S. dollars from the Single Currency Facility, from its Ordinary Capital resources. The terms and conditions of the loan for the first phase will be as follows:

Amortization period:	20 years
Grace period:	3 years
Disbursement period:	3 years
Interest rate:	variable
Inspection and supervision:	1%
Credit fee:	0,75% annually on undisbursed balance
Currency:	US Dollars from the Single Currency Facility

III. PROJECT EXECUTION

A. The financial and executing agent

- 3.1 The financial agent would be Nacional Financiera, S.N.C. (NAFIN), and the executing agency the Secretariat of Labor and Social Welfare. The Government of Mexico would assume responsibility for the debt servicing associated with the loan. An Agreement for Resource Allocation ("Contrato de Derivación de Fondos") would be signed between NAFIN and the government, to stipulate the responsibilities and obligations of each party and the mechanisms to be used for channelling the funds from the loan to the executing agency. Presentation of this agreement to the Bank would be a condition prior to first disbursement.
- 3.2 NAFIN would act as financial agent for this project on behalf of the Government of Mexico. This project would not infringe on NAFIN's finances, since the local counterpart would come from the federal government budgetary allocations.

B. Special characteristics of the project

- 3.3 The proposed Labor Markets Modernization Project, conceptualized and fully analyzed as one operation with a total estimated cost of US\$850 million (Bank financing US\$450 million) will be implemented in **two phases**. Each phase will be supported by a separate Bank loan (US\$250 million and US\$200 million, respectively) to be executed over a three-year period for Phase I and a two-year period for Phase II.
- 3.4 The recommendation for the Board approval of the second phase of the project would be triggered when management verifies that the following conditions have been fulfilled: (a) that, at least, 50% of the resources of Bank financing for Phase I have been disbursed; and (b) that satisfactory progress of the project has been made. A memorandum outlining the status of disbursement targets and performance achievements would be presented to the Board of Directors to request the approval of the second phase of the project.

C. Overall execution and administration

- 3.5 Overall authority for project management and execution would be vested in the Labor Secretariat, and in particular the **Under-secretary of Labor** (Undersecretary B), who would be assisted in the general management and coordination of the project by the General Directorate of Employment (DGE) and by the General Coordination of Labor Policies, Studies and Statistics (CGPEET).

- 3.6 The project organization would have two levels: (a) at the **central level**, project implementation would be carried out within the existing organizational structure of STPS; and (b) at the **local level**, the SEEs and the UPCs would be responsible for implementing project activities and for providing assistance to unemployed and services to enterprises.
- D. Administration of Subprograms 1 and 2: Improving productivity in MSMEs (CIMO) and Job placement for unemployed (SNE/PROBECAT) (US\$224.6 million in Phase I, and US\$185.2 million in Phase II, for a total of US\$409.8 million)
- 3.7 The Undersecretary of Labor "B" , through its DGE, would be responsible for the coordination and implementation of these two subprograms and already has adequate support systems in place to manage and monitor the project's physical, financial and human resource activities. The use of additional fixed-term temporary staff and technical assistance would reinforce its capacity to manage and implement the new project activities. Institutional strengthening of the DGE would, therefore, be mostly directed at modernizing its administrative, operational and information systems, and at updating the skills of existing and new staff. The DGE would also support the administration of Subprograms 3 and 4.
- E. Administration of Subprogram 3: Policy evaluation and institutional development (US\$8.4 million in Phase I, and US\$6.4 million in Phase II, for a total of US\$14.8 million)
- 3.8 The Undersecretary of Labor "B", through the CGPEET would be responsible for coordinating this subprogram and implementation of some of its activities through its three General Directorates ("Subcoordinaciones") and with the support of DGE in order to: (a) liaise and enter into agreements with public and private organizations that would conduct surveys and studies under the project; (b) conduct specialized studies, as well as analyze and publish the results; (c) issue periodic publications with labor market information and review technical STPS publications; (d) manage and improve the labor market information system and the labor market documentation centers; (e) coordinate delivery of technical training for staff; and (f) coordinate the installation of computers/software in central offices of STPS.
- 3.9 A technical committee chaired by the Undersecretary "B" facilitates coordination between CGPEET, DGE, and other units. Its members include the General Directors of the technical areas of STPS. The committee would be supported by outside experts when needed.
- 3.10 The CGPEET General Coordinator and the DGE General Director are assisted and supported by staff and consultants from their directorates and administrative units. CGPEET, DGE and the administrative units will manage personnel, procurement, consultant contracting, accounting and financial activities under the project.

- 3.11 CGPEET, while having very qualified staff at the managerial level, is weak in some technical areas; thus, institutional strengthening activities would focus on the provision of specialized technical assistance and training, to help staff develop technical skills. During the annual reviews, the status of implementation will be assessed and agreements would be reached on further institutional assistance, if required.

F. Administration of Subprogram 4: Modernization of workplace practices (US\$14.5 million in Phase I, and US\$ 6.4 million in Phase II, for a total of US\$20.9 million)

- 3.12 The Undersecretary of Labor "B" will be responsible for coordinating this subprogram with the support of the Technical Committee. The organizational units in charge of the areas of labor justice, occupational safety, and training and productivity will implement the activities of this subprogram. The Technical Committee will help guarantee that an adequate level of coordination exists among the different units involved. The design of the pilot projects to be implemented under this subprogram will be completed during implementation.
- 3.13 A large degree of flexibility in implementation of this subprogram will be maintained to allow for anticipated adjustments and further definition of activities. These adjustments will emanate from further analysis of these areas during project implementation. Therefore, the implementation schedule of activities under this subprogram will be developed during negotiations for 1997, and adjustments will be made during supervision missions for subsequent years. However, schedule for works, goods, and service contracts for the first year of operation of the program will be agreed upon during negotiations. The procurement schedule for subsequent years will be agreed during the annual supervision missions.
- 3.14 The operational units in charge of labor justice, occupational safety and training and productivity, while having very qualified staff at the managerial level, are weak in some technical areas. Thus, institutional strengthening activities would focus on technical assistance, to help develop sufficient technical basis to support project activities.

G. Procurement of goods and services

- 3.15 Procurement of goods, works and consulting services will be done according Bank guidelines, and will be carried out by STPS at the central level. Standard bidding documents agreed upon between the Bank and the government will be used during project implementation. The executing agency has substantial experience with international procurement guidelines and will use bidding procedures accepted by the Bank.
- 3.16 The schedule for contracting of works, goods and consulting services for the first year of project implementation was already

agreed during the pre-analysis mission. The procurement schedule for subsequent years will be agreed during the annual supervision missions and will be based on implementation status and budgetary availability.

- 3.17 The procurement of goods and works with loan resources, will be carried out according to the guidelines and procedures set forth in Annex B of the Loan Contract. Established ceilings are US\$5 million for works and US\$350,000 for related goods and services, beyond which an international competitive bidding process will be required. Procurements below these amounts will be governed by national legislation which require national public bidding or competitive procurement methods established by national regulations.
- 3.18 The contracting of studies and consulting services, will be carried out according to the guidelines and procedures set forth in Annex C of the loan contract. Taking into consideration the large number of individual consulting contracts for Subprogram 1 (172,445), for Subprogram 2 (106,274), and for Subprogram 3 (1,928) which involve contracting throughout the entire country (with average payments of no more than US\$12,000/consultant), it was agreed that they would be contracted by local service delivery units, such as the SEEs. The Bank has reviewed the mechanisms for contracting the aforementioned consulting services and found them highly efficient and satisfactory for the implementation of the above mentioned subprograms.
- 3.19 The above was consulted with the Bank's procurement office, which has issued its non objection.

H. Execution period and disbursement calendar

- 3.20 The proposed period for project implementation and loan disbursements is three years for Phase I and two years for Phase II and will be eligible for disbursements beginning with the fulfillment of the conditions prior to first disbursement. At the end of the first phase, and after 50% of the resources for the First Phase has been disbursed, management will recommend to the Board the approval of the Second Phase. The cost estimates prepared for the various subprograms would serve as a basis for project implementation planning and would be updated annually by STPS in preparation for the annual supervision reviews. The tentative disbursement schedule, Table III-1 is compatible with the implementation capacity and availability of the local counterpart.

TABLE III-1 TENTATIVE DISBURSEMENT SCHEDULE (US\$000)									
	P H A S E I				P H A S E II				
Source	Year 1	Year 2	Year 3	SUBTOTAL	Year 4	Year 5	SUBTOTAL	TOTAL	%
IDB/OC	49,180	89,290	111,530	250,000	120,000	80,000	200,000	450,000	52.9
Local	31,105	56,025	70,020	157,150	80,130	162,720	242,850	400,000	47.1
Total	80,285	145,315	181,550	407,150	200,130	242,720	442,850	850,000	100.0
%	9.4	17.1	21.4		23.5	28.6		100.0	

I. Retroactive financing

- 3.21 Retroactive financing of eligible expenditures for key activities of Subprograms 3 and 4 would be required to finance some activities that, at the request of the Bank, are necessary to accelerate the design of the studies, including terms of reference and related information, to avoid delays in the execution of the aforementioned subprograms, as well as the acquisition of information equipment and related software. To this effect, it is recommended to approve US\$8 million in retroactive financing for expenditures, which have already been reviewed and approved by the Bank, 12 months prior to the approval of this project.

J. External auditing

- 3.22 During project implementation, the financial statements of the project will be audited by SECODAM.

K. Monitoring, control, and follow-up

- 3.23 The monitoring system will be permanent. Its purpose will be to determine and evaluate, subprogram by subprogram, the effectiveness and efficiency of the activities performed. This will allow experience and lessons learned to be shared and help foresee and adjust implementation. During the annual reviews with the government, the Bank would pay particular attention to the effectiveness and efficiency of implementation of project subprograms, and changes would be agreed as needed.
- 3.24 As a condition prior to the first disbursement, the executing agency will present an annual operative program that will include a detailed initial plan of action for the first year of the project implementation and, thereafter, on an annual basis. During these supervision and evaluation meetings STPS, the borrower, and the Bank will review the progress made in project implementation, with particular regard to the measures and activities thereby established in the Benchmarks for this project (see Annex III-1). This will provide an opportunity to assess the project's performance and necessary adjustments.

L. Bank supervision

- 3.25 The Bank will supervise the progress and execution of the project, through its Country Office in Mexico and annual review missions by the project team, jointly with specific authorities responsible for the project implementation.

M. Project readiness for implementation

- 3.26 The project was prepared by STPS staff with periodic inputs from Bank missions. The government's priority, in addition to the STPS's desire to have continuity in project activities and improved services for enterprises and the unemployed resulted in an accelerated and well-focused project design process. Key regions for establishing new UPCs were identified. SEEs are expected to deliver improved employment and retraining program services. Staff training course design is being developed, and a preliminary design of the information systems is outlined and will be finalized during the first quarter of project execution. A preliminary list of surveys and studies to be completed under the project has been prepared. Also, standard bidding documents to be used under the project are completed, as well as standard equipment lists for the first year of project implementation.

IV. VIABILITY, BENEFITS AND RISKS

A. Institutional issues

- 4.1 An institutional analysis was conducted by the Bank during project preparation and concluded that the STPS has ample experience in executing projects. The units within STPS and the SEEs charged with project execution will receive support through the project to enable them to undertake the significant expansion of the activities planned under this operation.
- 4.2 The major institutional risk would seem to lie in the proposed role for the private sector in the CIMO productivity subprogram. While the problems experienced in this area by the World Bank's program have been carefully analyzed, and while the proposals have been designed accordingly, it remains true that the willingness of business associations to accept greater responsibility will only be verified in the course of their future actions. To mitigate this risk, the project envisages extensive consultation with, and active participation of, the business associations concerning the new arrangements; in addition the agreed framework will include appropriate incentives. The monitoring arrangements will enable the project team to keep track of progress and help make the inevitable adjustments.
- 4.3 Beyond these considerations, the CIMO productivity program, even in its present form, offers a powerful demonstration of how the public sector can achieve its objectives through highly unconventional institutional arrangements. Not even the core staff of the UPCs are career public sector administrators; they are private-sector consultants hired on short-term contracts and must demonstrate their successful performance to continue. Even at the federal level, the program has a very limited number of STPS personnel. In addition, a (non rigorous) estimate suggests that administrative cost are less than 10% of program budget. There is little doubt that these achievements are beginning to set a standard by which other programs in STPS are already being judged. Moreover, and although SNE/PROBECAT staff are career public sector administrators, they are held to private sector productivity standards and their performance is rewarded accordingly.

B. Financial and economic issues

- 4.4 The financial viability of the project is supported by the priority assigned by the government to this sector and the budgetary resources that have been allocated to these projects in the past. The resources committed as local counterpart are substantial and past experience indicates these commitments can be fulfilled. Even at times of severe fiscal contraction, the government has viewed these programs as an agile and useful compensation mechanism to workers affected by adverse economic shocks. The experience of

recent past thus suggests that the risk of an economic downturn, inducing a reduction in fiscal commitments to the project, is quite low. The figures cited below make this argument quite clear.

- 4.5 Total federal government expenditure has declined from US\$247.3 billion in 1987 to US\$165.9 billion in 1995. ^{2/} Most of this reduction occurred in the 1987-1992 period, followed by a slight increase between that date and 1994, in turn followed by a reduction in 1995. In contrast, the expenditure on activities covered by this program experienced continuous and dramatic growth during the whole period.

TABLE IV-1 FEDERAL GOVERNMENT AND PROGRAM EXPENDITURES				
	Total federal government expenditure		Expenditure on activities covered by this program	
	(US\$ billion)	(annual rate of growth)	(US\$ million)	(annual rate of growth)
1992	148.5	(4.0)	16,041.1	-
1993	156.6	5.5	32,791.7	104.4
1994	172.3	10.0	96,476.5	194.2
1995	166.0	(3.7)	109,178.4	13.2

- 4.6 Further evidence of the government's increased commitment to this sector can be found in the table below, which shows how the share of total costs assumed by the Bank will decline over the project's period, so that the government's share will increase correspondingly. It should be noted that the Bank share for the period 1997-2000, begins from a level below that established by the World Bank for the period before 1996. Most important of all, the government's commitment to assure the sustainability of the programs included in the proposed project, lies in the fact that the Bank will decrease its participation in the financing of some activities, such as the SNE/PROBECAT where the financing will go from 72% to 28% by the end of the project.

^{2/} All data in this section from "Perspectivas Económicas de México, CIEMEX-WEFA, Julio 1996, vol. XXVIII, num. 2".

TABLE IV-2 FEDERAL GOVERNMENT AND PROGRAM EXPENDITURES (US\$ million)				
	Expenditure on activities covered by this program	Financing sources		% MDB financing
		MDB	Local	
1992	16,041	8,906	7,135	55.5
1993	32,792	22,793	9,998	69.5
1994	96,477	54,836	41,641	56.8
1995	109,178	95,857	13,322	87.8
1996	n.a.	n.a.	n.a.	n.a.
1997	203,050	111,191	91,859	54.8
1998	215,754	116,065	99,689	53.8
1999	215,780	112,091	103,689	51.9
2000	217,416	110,653	106,763	50.9
Notes: The period 1992-1995 refers to executed budget and World Bank financing. The period 1997-2000 refers to planned budget and proposed Bank financing. Local financing includes federal government and private sector.				

4.7 The risk that the services offered by the project will not be attractive to the planned beneficiaries, particularly MSMEs and unemployed workers, is quite limited. Firstly, these subprograms have been designed taking into account the extensive and successful track record of existing programs. Secondly, the subprograms are equipped with arrangements that ensure that they remain responsive to demand. In particular, the cost-sharing requirements established with enterprises in both CIMO and PROBECAT subprograms, function to keep the content of the services relevant to market conditions.

4.8 For those aspects of the project suitable for such evaluation, cost-benefit and cost-effectiveness analysis (cited in Chapter I, Section C) have shown how public expenditures in existing CIMO and PROBECAT programs have had significant positive results. Enterprise productivity and worker employment were increased, and this was achieved in cost-effective ways, which goes to show that the benefits of the project more than justify the cost. The analysis shows that, regarding enterprises, public expenditure was able to leverage substantial additional private-sector investment in improving productivity.

C. Environmental issues

4.9 The Bank's Environmental Committee classified this project as Category II because most of the activities are concentrated in training, studies, and policy and institutional strengthening. It was also agreed that, whenever appropriate, and specially in those training activities that might have some kind of environmental impact, the Bank's Environmental Division will advise STPS on the pertinent strategies and actions.

D. Project benefits

- 4.10 **Subprogram 1: Improving productivity in MSMEs (CIMO).** The project will provide direct benefits to approximately 200,000 enterprises (553,000 enterprise-based events) and 750,000 workers. Project benefits, however, will extend beyond the participating enterprises. The project will significantly expand its outreach and social marketing activities to ensure that a larger number of enterprises and industries benefit from the demonstration effect of the new program. Through the increased involvement of enterprises in technical support activities, and the promotion of inter-enterprise cooperation, this subprogram will improve the quality of the training, information, technical support and technologies available to MSMEs.
- 4.11 **Subprogram 2: Job placement for unemployed workers.** The project will benefit up to 4.7 million workers through job placement assistance and job information services, and 2.2 million workers through its short-term training assistance programs. The project will increase job placement rates from an average of 35% to 45% for referred services and from 60% to 80% for training assistance beneficiaries. Of the beneficiaries assisted with short term training, 35% will be placed in on-the-job training programs where they are more likely to secure productive employment.
- 4.12 **Subprogram 3: Policy evaluation and institutional development.** The project will establish an integrated strategic planning framework, and will strengthen the capacity in the sector to conduct labor market policies analysis. A research network outside the STPS will be established. Better statistical information, and more publications on labor market issues will be available to the public. It is expected that by the end of the project 240 new studies (including evaluations of CIMO and PROBECAT) will have been produced, 150 research fellowships will have been granted, 14 surveys collected, and 195 publications issued.
- 4.13 **Subprogram 4: Modernization of workplace practices.** The project will reduce costs associated with conflict resolution through arbitration and collective bargaining. The project will reduce the obstacles firms and workers face when complying with regulatory and administrative requirements regarding training and occupational safety. It is expected that these activities will contribute to a better understanding of the regulatory framework and future discussions on these matters.

E. Project impact on women

- 4.14 Women will benefit from the improvements to be introduced in the different subprograms, especially CIMO's identification of best practices in integrating women in the project. Expected benefits will impact women as workers and entrepreneurs (especially those in the microenterprise sector). Furthermore, improved visibility of

women through social communication is expected to attract enterprises owned by women, as well as disseminate benefits of the program among enterprises with large participation of female employees. Subprogram 2 incorporates improved methodologies and activities in training and placement of women who are already receiving over 30% of the PROBECAT scholarships. Finally, the studies, research and surveys included in Subprogram 3 will greatly enhance the overall improvement of the analysis and evaluation of gender issues in areas crucial to the participation of women in the labor market.

F. Project benchmarks

- 4.15 To assist in the monitoring of project implementation, particularly in the context of the annual supervision missions, a comprehensive list of monitoring indicators will be used (see Annex III-1), and which includes a detailed implementation schedule for all actions related to each subprogram of the project. This list of indicators was discussed and agreed with the government and the executing agency. In order to assess the project's progress, these indicators will be reviewed in the annual supervision missions. The Bank has also set aside budget funds to incorporate, whenever required, outside experts in the reviews and evaluation activities.

INTEGRATION OF A GENDER PERSPECTIVE

The main purpose of this Annex is, first, to provide a basic socio-economic description of the Mexican female labor force; and second, to summarize the issues considered in the project subprograms in response to lessons learned and the actions considered to improve the benefits of the project for women.

I. MEXICAN WOMEN'S PARTICIPATION IN THE LABOR FORCE¹

1.1 During the past decades, women's socio-demographic characteristics and participation in the labor force have changed. Fifty one percent of Mexico's population of 95 million are women. From 1970-1990, women in the economically active population (EAP) tripled (from 10% to 33%) while men's doubled,² amounting to some 11 million women (although these data do not adequately reflect women's participation in the informal or agricultural sectors).³ Changes and growth of women's participation in the labor force have resulted from:

- The increased educational level of women.
- Greater demand in the labor force for the performance of certain jobs such as in maquiladoras, agro-exporting and services sectors.
- Need to increase household income to respond to the deterioration of the standard of living of a large number of families, resulting from years of crisis and recession and application of structural adjustment programs.
- Greater socio-cultural acceptance of women's participation in productive activities outside the home.

1.2 The increasing absolute and proportional participation of women in the labor force and the characteristics of this female labor force (e.g., level of education, types of employment activities, cultural barriers encountered in certain occupations) have implications for the level of coverage and the strategies of the program. The PMMT II provides an opportunity to consider the characteristics of female labor force, some of which are summarized below:

¹ Data for this section was obtained from: Clara Jusidman and Marcela Eternod. **La Participación de la Población en la Actividad Económica en México**. Instituto Nacional de Estadística Geográfica e Informática (INEGI) e IIS-UNAM. 1995.

² Dirección General de Empleo, STSP. 1995. Acuerdo de Cooperación Laboral de América del Norte. Seminario Internacional sobre Aspectos de Igualdad en el Centro de Trabajo. Tema Dos: Equidad en el Pago. México. Junio de 1995.

³ Statistics about Women, Flasco, México, 1993. According to Jusidman and Eternod, the conceptualization of economic activity "depends on the concept that people may have about what work is or what it is to help in an unpaid productive activity. Notable carelessness occurs in the analysis of the population's economic labor when subsistence or productive activities for self consumption are common and when the difference between domestic and paid work is unclear, for example, among women and children in agricultural, commercial, or service tasks."

a. **Education:** Due to women's increasing access to education in the last twenty years, women's EAP has achieved an educational level similar to men's in urban areas (47.4% of women and 41.9% of men finish elementary school). However, in rural zones these levels of schooling are lower (35.5% of the men and only 28% of the women). **The project subprograms consider differential levels of women's education in job training and placement activities.**

b. **Geographic and Sectorial Distribution:** The Mexican female EAP is more urban than men's (79% for women and 71% for men) and tends to concentrate in services and commerce. In cities of more than 100,000, women's jobs are distributed in manufacturing (21%), commerce (18%), services (including restaurants 50%), and other (12%). In cities of less than 100,000, women's jobs are distributed in agricultural and husbandry (23%), manufacturing (18%), commerce (25%), and service (34%). **The project activities are implemented in both rural and urban areas and in all kinds of business activities.**

c. **Occupations:** Mexican women can be classified according to primary jobs in the following categories: office secretaries (21%), trade and business attendance clerks (13%), domestic work (11%), education (10%), handicrafts or laboring (7%), public services (7%), technicians (6%), operators of fixed machinery (6%), agricultural and husbandry (3%), professionals (3%), officials and directors (2%), peddlers (2%), inspectors and supervisors (1%), and the rest in various activities. Women occupied 16% and men 84% of the jobs related to supervising, inspecting, contracting, and others dealing with control of craftsmanship or factory production. **The project provides an opportunity for women to enhance their skills and occupational choices.**

d. **Salary:** Between one and two minimum salaries are the average wages of 56% of the Mexican workers. Only 27% of the men earn less than one minimum salary compared to 37.6% of working women. About 29% of the women (24% of the men) earn less than two minimum salaries and lack social security. Women work more in the urban informal sector. Women with self-generated work vary from 28% percent in cities of more than 100,000 people to 21% percent in cities of less than 100,000. **The training subprograms and technical assistance (particularly to microenterprises) are expected to improve salary potential and earnings for women as a result of strengthening their employability and productivity.**

e. **Unemployment:** Women represent more than 46 percent of the all the unemployed (1991). Women suffer more underemployment than men (defined by the number of hours or weeks or payment of less than one minimum salary). World Bank studies confirmed that sex, age and education are key determinants of unemployment.⁴ **The project introduces improvements to the**

⁴ Ana Revenga and Michele Riboud. 1993. **Unemployment in Mexico.** Policy Research Working Paper 1230. The World Bank.

placement services and training programs in order to decrease barriers that limit women's employment potential.

f. **Enterprise Ownership:** Enterprises owned by women are predominantly located in commercial and service sectors (some 70%) with fewer women in manufacturing (11%).⁵ Data suggest that women owners become integrated into managerial activities of companies as an extension of family ties. In most cases, women business owners establish partnerships with family members. In addition to co-owners, women's importance in family business is also demonstrated by relatives who work in the same enterprise (women constitute about 42% of non-paid workers). Women-owned microenterprises have low access to business support activities (marketing, technology, management, financing) required to improve their businesses. **Although CIMO subprogram is not targeted to special groups, this program serves a significant number of female entrepreneurs and employees.**

II. LESSONS AND ISSUES DERIVED THE PROBECAT AND CIMO EVALUATIONS

- 2.1 The proposed PMMT II takes into account the need to further incorporate gender issues in STPS's programs and practices, responding to socio-economic characteristics (described above) and the impact evaluations summarized below:

PROBECAT

- 2.2 Although women who took specialty courses in occupations with a large participation of men earned less than they did, these women did earn higher average salaries than women who took courses traditionally oriented to women. The PROBECAT pilot group included a large concentration of women in only a few specializations (32% in courses related to sewing; 23% in six specialties--mainly in services such as updating skills to be a secretary, hotel chamberlain, or cook; and the rest of the scholarship recipients, 45%, in 62 specializations).⁶ The proposed program includes improved orientation of job counselors and staff of the STSP in order to reduce biases affecting women participants. For example, training and job placement experiences under PMMT I in non-traditional occupations (e.g., carpentry) will be further promoted in the new program.
- 2.3 The institution-based training modality proved less effective for women.

⁵ Zabludovsky, Gina. 1995. *Presencia de las empresarias en México: Diagnóstico comparativo regional y mundial*. Revista Mexicana de Sociología. Vol. 57, No.4. Octubre-Diciembre. México, D.F.: Instituto de Investigaciones Sociales.

⁶ Likewise, the designing of the training courses failed to consider adequately women's contribution to family income, the professionalization of her activities, the improvement of her productivity, and the business focus that can diversify traditional activities or change them for others with chances of greater economic viability.

Possible explanations include inappropriate courses or job orientation support for females and other rigidities and barriers in the labor market. Such training fine-tune eligibility criteria and targeting efforts in order to channel unemployed workers to programs where they are more likely to benefit. For example, women who are first time job-seekers tend to do better in training activities that allow them to gain the work experience.

CIMO

- 2.4 CIMO in PMMT I did not identify specific gender issues. In preparation for the PMMT II, a sample of 50 enterprises that had received assistance from CIMO was identified. Field visits to enterprises in this sample provided evidence of positive impact for women as a result of training and technical assistance to companies at two levels--companies with a large participation of women workers as well as microenterprises owned by women.⁷ In companies with a large participation of female workers, improved practices in human resource management and production systems reduced employee turnover (in some areas average turnover is 50 percent per year, for example, in garment industry maquiladoras) and improved quality of production as measured by specific buyers' quality audits. Training and technical assistance improved microenterprises production and marketing practices, resulting in increased sales.
- 2.5 A large percentage of CIMO's support has gone to the microenterprise sector. This sector is characterized by a high level of women's participation. Although not explicitly identified, the program has been benefiting women-owned enterprises. CIMO has served all the sectors with a high participation of women, including manufacturing (food transformation and garment industries), trade and services, as well as the agricultural sector.

III. GENDER CONSIDERATIONS IN THE SUBPROGRAMS OF THE PMMT II

- 3.1 The proposed project design emphasizes the contribution women make to economic growth as employees and enterprise owners. Building on the more positive experiences and lessons learned of the PMMT I, the new program promotes **best practices** and **demonstration cases** for supporting women. This emphasis will be developed as part of the social marketing efforts of the program.
- 3.2 The project will take the following actions in order to improve the integration of women **across** the various subprograms:
- a. Assign for each of the four subprograms a "focal point" person who will be responsible for: a) to follow up and monitor the integration of gender issues into various activities of the subprogram; and, b) to coordinate

⁷ Field trips included visits in Northern states to maquiladoras with large female participation as well as microenterprises headed by women in Oaxaca and Veracruz.

and exchange information with other focal points.

b. Organize a year after the project initiation (1998) a seminar on gender issues focusing specifically on the experiences and lessons learned in the subprograms.

c. Continue coordinating activities (or develop new ones) in relation to women's participation and gender issues with other institutions (e.g., CNC, Secretaría de Educación, Secretaría de Salud, Programa Nacional de la Mujer de la Secretaría de Gobernación).

3.3 The subprogram I, Improving Productivity in Medium, Small and Micro Enterprises (CIMO) will:

a. Raise awareness and orient coordinators and promoters (UPC) about gender issues in order to develop the potential of women as workers and entrepreneurs.

b. Document cases in various formats (e.g., videos, brochures) that make visible the participation of women.

c. Include as pilot studies women in non-traditional areas in order to develop illustrative cases of best practices in CIMO that can be used as a demonstrative effect.

d. Improve statistical information and analysis of various CIMO supported activities and participation of women.

e. Through the previous activities, gender issues will be mainstreamed in the CIMO's operation, strategies and specific activities. These include among others (see 2.11 to 14) assistance to worker certification, support to groups of firms, training of CIMO staff and promoters and social marketing.

3.4 The subprogram II, Job Placement for Unemployed Workers (SNS/PROBECAT) will:

a. Raise awareness and provide guidelines about gender issues pertaining to labor training and placement to all the staff in the National Employment Services and the counselors and analysts in the State Employment Services.

b. Document successful case studies in women's training that serve as demonstrative cases and methodologies in institution- based training and on-the-job training.

c. Include pilot "integrated package" mechanisms to address gender issues (identified in evaluation of PMMT I) that respond to impact on women.

d. Improve the use of statistical information already disaggregated by sex in the SISNE through the gender analysis of training and placement activities.

e. Identify experiences of institutions working with women and labor issues in order to evaluate the viability of operationalize activities in training and placement of women.

f. This subprogram will mainstream gender issues in activities (see 2.21 to 2.30) which include employment fairs, workshops for job seekers, modules in basic skills and employment search.

- 3.5 **In the Subprogram III, Information, Policy and Institutional Strengthening**, all the various subcomponents (evaluations, research, labor market information systems and surveys) will include a gender analysis and sex dissaggregated data. Area of research interest include, among other, those related to labor regulation and women workers, wage discrimination, and employment and economic activities of rural women. Specialized training of STSP staff will include treatment of gender and labor market issues. This program offers an opportunity for a thorough review of the conceptual frameworks and of the classifications that up until now have guided the measurement and study of women's economic activities.

IV. MONITORING AND EVALUATION

- 4.1 The program will benefit from a permanent monitoring system as well as information systems which will be strengthened by the project facilitating the collection and processing of disaggregated data by sex. Improvements in the information systems will help in the monitoring and analysis of women's participation in the subprograms I and II and in the identification of policy and research issues that can be addressed in subprograms III and IV.

LOGICAL FRAMEWORK

NARRATIVE SUMMARY (NS)	VERIFIABLE INDICATORS (OVI)	MEANS OF VERIFICATION (MOV)	IMPORTANT ASSUMPTIONS
Goal:			(Goal to Supergoal):
Assist the government in promoting private sector-led growth through a more efficient operation of the labor market.	1.1 Private Sector GDP share increased.	1.1 National Accounts System (Private Sector GDP/Total GDP).	1. The new Zedillo's administration committed to the project objectives ("paribus").
Purpose:			(Purpose to Goal):
Promote labor mobility, employment potential and workplace productivity by encouraging the more efficient operation of labor market programs and by enhancing the capacity of the sector for policy planning, analysis and programming.	1.1 Increased labor productivity and reduced unemployment rates.	1.1 National Unemployment Survey and National Accounts. (Productivity as Total GDP divided by Total Employment, and Unemployment as Total Number of Unemployed divided by Total Economic Active Population). 1.2 Statistical analysis from the Information System of the National Employment Service (SISNE).	1. Sufficient budgetary allocations for sustainability beyond project completion. 2. Good coordination among the implementing agencies and private actors.
Outputs:			(Output to Purpose):
Productivity and competitiveness of a greater number of MSMEs and their workers increased (CIMO).	1.1 Productivity levels, organizational schemes and quality of services and goods increased at higher rates than the control group. 1.2 Enterprises directly and indirectly reached by the program increased from 45,000 to 200,000. 1.3 Enterprise training and support events increased to 553,000.	1.1 Results from the CIMO program evaluation. 1.2 Information provided by the Management Control System (CSF based). 1.3 Information provided by the Management Control System (CSF based).	1. Acceptance by enterprises of the productivity enhancement actions.
Hiring and job search costs reduced and placement rates of the program increased. (SNE/PROBECAT).	2.1 Job seekers interviewed and counseled increased from 430,000 to 630,000 annually, out of which 60% were placed. 2.2 Training actions increased annually from 60,000 to 80,000, out of which 80% trainees were placed.	2.1 Statistical analysis from the Information System of the National Employment Service (SISNE) and results from the PROBECAT program evaluation. 2.2 Statistical analysis from the Information System of the National Employment Service (SISNE) and results from the PROBECAT program evaluation.	

LOGICAL FRAMEWORK			
NARRATIVE SUMMARY (NS)	VERIFIABLE INDICATORS (OVI)	MEANS OF VERIFICATION (MOV)	IMPORTANT ASSUMPTIONS
Outputs:			(Output to Purpose):
An integrated strategic planning framework for labor market policy management established.	3.1 240 studies and reports produced through the labor market research network; 150 research fellowships awarded; 900 in-service training courses completed; 14 surveys completed and 195 publications issued.	3.1 Annual Supervision Mission Reports.	
Administrative, procedural and regulatory barriers that impact on workplace productivity reduced.	4.1 Current arbitration, safety, and training procedures processing time reduced by 50%; voice and data network implemented; 7,300 preventive programs developed.	4.1 Statistical analysis on data from information systems and results from data collection.	
Activities:			(Activity to Output):
1 Improving and expanding coverage of the CIMO program.	1. See Detailed Project Budget Overview in Annex	1.1 Budget Execution Information	1. Sufficient budgetary allocations implementation.
2 Expanding the direct assistance and introduce new activities to increase the CIMO program impact.		1.2 Budget Execution Information	
3 Developing a framework for the privatization of the CIMO program.		1.3 Budget Execution Information	
Strengthening of the National Employment Service (SNE).		2.1 Budget Execution Information	
2 Expanding the Employment and Training Program (PROBECAT).		2.2 Budget Execution Information	
Defining an integrated framework of program evaluation and research for labor market policy management.		3.1 Budget Execution Information	
2 Defining an integrated framework of information systems for labor market policy management.		3.2 Budget Execution Information	
Strengthening STPS working methods by increasing staff's specialized skills and by enhancing the availability of published material on labor market related topics.		3.3 Budget Execution Information	
Assisting and supporting program administration activities.		3.4 Budget Execution Information	
Improving STPS working procedures for the administration and enforcement of Labor Justice activities.		4.1 Budget Execution Information	

LOGICAL FRAMEWORK

NARRATIVE SUMMARY (NS)	VERIFIABLE INDICATORS (OVI)	MEANS OF VERIFICATION (MOV)	IMPORTANT ASSUMPTIONS
Activities:			(Activity to Output):
2 Improving STPS working procedures for the implementation of occupational safety activities.		4.2 Budget Execution Information	
3 Improving STPS working procedures for the implementation of new training and productivity activities.		4.3 Budget Execution Information	
4 Improving STPS working procedures on arbitrage and conciliation activities.		4.4 Budget Execution Information	

MEXICO LABOR MARKETS MODERNIZATION PROJECT II BENCHMARKS							
SUBPROGRAMS	Measuring Unit	1997	1998	1999	2000	2001	
PRODUCTIVITY ENHANCEMENT PROGRAM (CIMO)							
Workers/course	Workers/course	245,750	565,000	610,000	689,000	404,000	2,510
Enterprises/course	Ent./course	54,000	128,000	136,035	148,224	80,000	540
Events	Events	24,000	55,497	57,155	65,266	38,000	230
New UPCs	UPCs	2	4	4	0	0	
LABOR MARKET ADJUSTMENT MECHANISM							
Entitlement to workers							
Applicants	Persons	292,500	608,000	629,000	647,000	332,000	2,500
Vacant	Persons	175,000	372,000	394,000	416,000	218,500	1,570
Referred	Persons	192,000	409,000	433,000	457,000	240,000	1,730
Placed	Persons	64,500	140,000	150,000	160,000	85,000	590
Training actions	Scholarships	235,000	512,500	555,800	600,500	322,500	2,220
POLICY EVALUATION AND DEVELOPMENT							
Active policies on labor markets	Study	8	10	10	10	5	
Sector/Regional studies	Study	36	36	36	36	36	
Project evaluation	Study	1	3	2	2	2	
Prepare Labor Report	Report	2	4	4	4	2	
Labor research	Scholarships	30	30	30	30	30	
For information							
Surveys	Surveys		3	4	3	4	
Institutional development							
Distribution	Publication	37	42	41	41	34	1
Specialized training	Course	115	229	229	229	115	9
MODERNIZATION OF ADMINISTRATIVE PROCEDURES FOR LABOR MARKET SERVICES							
Development and implementation of preventive programs	Programs/Firms	915	1,830	1,830	1,830	915	7,300

PROPOSED RESOLUTION

MEXICO. LOAN ____/OC-ME TO NACIONAL FINANCIERA S.N.C.
(Modernization of Labor Markets Program, Stage II)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with Nacional Financiera S.N.C., as Borrower, and Estados Unidos Mexicanos, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of the First Phase of the Modernization of Labor Markets Program, Stage II. Such financing will be for the amount of up to US\$250,000,000 from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.