

## LABOR MARKET MODERNIZATION PROGRAM PHASE II

(ME-0118)

### EXECUTIVE SUMMARY

<b>Borrower:</b>	Nacional Financiera, S.N.C. (NAFIN)	
<b>Guarantor:</b>	United Mexican States	
<b>Executing agency:</b>	Department of Labor and Social Welfare (STPS)	
<b>Amount and source:</b>	IDB: (OC)	US\$200.0 million
	Local:	US\$233.3 million
	Total:	US\$433.3 million
<b>Financial terms and conditions:</b>	Amortization period:	20 years
	Grace period:	2 years
	Disbursement period:	2 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75% on the undisbursed balance
	Currency:	U.S. dollars from Ordinary Capital under the Single Currency Facility
<b>Background:</b>	<p>In December 1996, the Bank's Board of Executive Directors approved the labor market modernization program, designed and analyzed by the Bank as a single operation that would be implemented in two phases and would entail a total estimated cost of US\$850 million, of which the Bank would contribute US\$450 million. Each phase would be supported by an independent loan (US\$250 million and US\$200 million, respectively) to be disbursed over a period of three years for phase I and two years for phase II.</p> <p>Upon approval of phase I in December 1996, the Bank's Board of Executive Directors decided that the implementation of phase II would be subject to the following conditions: (i) that 50% of the financial resources for phase I had been disbursed; and (ii) that satisfactory progress had been made in the overall execution of the program.</p>	

On January 9, 1997, the contract for loan 983/OC-ME in the amount of US\$250 million was signed to finance phase I of the program. The loan was declared eligible for the first disbursement on November 5 that year. To date, US\$236 million has been disbursed, representing 95% of the US\$250 million allocated for phase I. The remaining US\$14 million will be disbursed by July 2000. Phase I was completed on December 31, 1999, and 100% of the resources were committed by that date.

**Objectives:** The purpose of the attached document is to present details of the progress made during the execution of phase I. The experiences from phase I have provided a foundation for consolidating the activities that will be continued in phase II.

In accordance with the program objectives, phase II will build on the strategic achievements already made and consolidate the integration of labor policies with the long-term development strategy initiated during phase I to increase the productivity of the economically active population. This will be achieved through efficient operation of the active labor market programs and sector training to analyze, plan, and program labor policy. Phase II will incorporate a series of innovations and changes made as a result of lessons learned during phase I (paragraphs 2.18 to 2.22).

**Description:** The activities to be supported by the Bank are detailed in the attached document and in Annex I, which specifies the benchmarks for phase II. The following four subprograms will continue to be supported in phase II:

**Subprogram 1. Comprehensive quality and modernization program (CIMO).** Elements and mechanisms to administratively decentralize the UPCs will be introduced and tested. In addition, the participation of MSMEs will be increased. A job skills and certification system for businesses and individual consultants providing services under the program will be promoted. Evaluation activities will also be expanded to better identify the impacts of the various program modalities (paragraph 2.18).

**Subprogram 2. Mechanisms for structural adjustment of the labor market, and training grant program for unemployed workers (PROBECAT).** The goal is to prioritize the importance given to various modalities within PROBECAT in order to promote the more effective ones, particularly the mixed modality (internships at businesses). New activities and pilot projects will be developed to improve the productivity of programs for the self-employed. In

addition, greater integration of placement, counseling, and training services to be provided by private agencies under the State Employment Offices will be promoted. New contracting procedures will be introduced to ensure that the goals of this last innovation are met (paragraph 2.19).

**Subprogram 3. Policy evaluation and institutional development.** New, well-defined internal coordination mechanisms will be established to overcome administrative delays experienced in phase I. In addition, internal capacity will be strengthened through technical support and greater supervision. It has been agreed that close monitoring of the studies and surveys action plan will also be undertaken (paragraph 2.20).

**Subprogram 4. Modernization of workplace practices.** The development of information networks and administration systems will be accelerated. Ongoing evaluations will also be accelerated and enhanced so that all available resources can be used to determine whether activities should be continued or discontinued in phase II (paragraph 2.21).

**Role of the  
Program in the  
Bank's country  
and sector  
strategy:**

Phase II of the program will continue to be consistent with the Bank's strategy to support Mexico in its labor market modernization efforts.

**Environmental  
and social  
review:**

The former Environment Committee had classified this operation as a Category II project. This classification was maintained for phase II, as most of the activities will continue to focus on training, studies, surveys, and institutional strengthening. A classification of Category II by the former Environment Committee is equivalent to interventions with no significant environmental impact.

**Benefits:**

The implementation of the activities outlined in phase I of the program has helped improve the effectiveness of the Mexican government's labor policies. This has been achieved by successfully integrating public and private sector participation in the design and provision of training and labor mediation services. Due, in part, to the Bank's support for the Department of Labor and Social Welfare, three fundamental objectives have been met. The first objective was to advance the development of innovative organizational models that will ensure timely, relevant training services. The second objective was to enhance the effectiveness of labor mediation services by incorporating alternate providers of job placement and training services. The third objective was to strengthen the labor authority's ability to manage, oversee, and promote the various types of contracts

that determine working conditions and remuneration without adversely affecting job creation.

Improvements in the design and implementation of labor policies have served the Bank's and the Mexican government's shared objective of shifting from short-term, assistance-oriented programs to labor policy-based activities in the framework of a development strategy to increase productivity and competitiveness. The program has contributed to the achievement of this objective. First, technical assistance being evaluated has allowed a dynamic of change to be established in the design and implementation of labor policy. Second, the inclusion of private entities in the delivery of services, which are much more responsive to market forces when determining the type and content of job placement and training services, has made these programs more efficient and adaptive to the changing circumstances of the Mexican economy. Third, the transparency associated with the publication of clear operating rules for the programs which are disclosed to the beneficiaries has reduced the risk of political manipulation.

**Special aspects  
of phase I**

**Impact on women.** As was agreed on during original preparation of the program, the STPS has shown a firm commitment to supporting women by increasing and expanding their participation in labor market programs (paragraph 1.27).

**Support for differently-abled persons.** One of the most innovative aspects of the program has been the introduction of pilot programs that address the needs of differently-abled workers, and awareness-raising activities to educate employers about the potential productivity of these workers (paragraph 1.28).

**Poverty  
reduction and  
social sector  
classification:**

The activities that will continue to be supported under subprogram 2, the job placement program for unemployed workers (PROBECAT), will continue to benefit low-income groups throughout the country. Therefore, the program partially complies with the Bank's guidelines for participation in poverty reduction and social equity programs.

**Exceptions to  
Bank policy:**

See procurement of goods, works, and consulting services.

**Procurement of  
goods, works,  
and consulting  
services:**

The procurement of goods and contracting of works and related services using the proceeds from the loan will be carried out according to the Bank policies and procedures that will be set forth in Annex B to the prospective loan contract. The thresholds above which international competitive bidding (ICB) will be required are US\$350,000 for goods and US\$5 million for works.

The contracting of consulting services and courses will be carried out according to Bank policies and procedures that will be set forth in Annex C to the loan contract. The threshold above which an international open call for proposals will be required is US\$200,000.

As an exception to the ICB requirements, the following institutions, which provided services in phase I, will be hired directly:

- a. The National Institute of Statistics, Geography, and Information (INEGI), to carry out population and labor market surveys, and
- b. The Mexican Construction Board of Trade (CMIC), to conduct studies on occupational health and safety in the construction industry (paragraph 2.36).

The borrower may also directly contract through the executing agency for the following services:

- a. impact studies on labor migration, to be carried out by the Colegio de la Frontera Norte (COLEF), and
- b. publicity through television, radio, or press.

In accordance with Bank policy, ex post reviews may be carried out for procurements below the thresholds.

**Special  
contractual  
conditions:**

The funds transfer agreement between NAFIN and the United Mexican States must be signed as a condition precedent to the first disbursement of the loan proceeds.

Retroactive financing may be authorized for procurements of goods, works, and consulting services for the program for up to US\$40 million from the Bank's financing and for up to US\$45 million from local counterpart resources (paragraph 2.37).

## **I. LABOR MARKET MODERNIZATION PROGRAM**

### **A. Background**

- 1.1 The purpose of this report is to request approval for phase II of the labor market modernization program and to present the progress made during phase I of the program. The labor market modernization program, which is being carried out by the Department of Labor and Social Welfare (STPS), was designed and analyzed by the Bank as a single operation that would be implemented in two phases and would entail a total estimated cost of US\$850 million, of which the Bank would contribute US\$450 million. Each phase would be supported by an independent loan (US\$250 million and US\$200 million, respectively) to be disbursed over a period of three years for phase I and two years for phase II.
- 1.2 Upon approval of phase I in December 1996, the Bank's Board of Executive Directors decided that the implementation of phase II would be subject to the following conditions: (1) that 50% of the financial resources for Phase I had been disbursed; and (2) that satisfactory progress had been made in the overall execution of the program.
- 1.3 On January 9, 1997, the contract for loan 983/OC-ME in the amount of US\$250 million was signed to finance phase I of the program. The loan was declared eligible for the first disbursement on November 5 that year. To date, US\$236 million has been disbursed, representing 95% of the US\$250 million allocated for phase I. The remaining US\$14 million will be disbursed by July 2000. Phase I was completed on December 31, 1999, and 100% of the resources were committed by that date.
- 1.4 As indicated in the progress reports and the monitoring missions, the performance goals for phase I (1997-1999) have been met (paragraphs 1.10, 1.15, 1.18, and 1.21). The objectives, goals, and targets for the benchmarks for phase II (2000-2001) are expected to be satisfactorily met by program completion (see Annex I).
- 1.5 The implementation of the activities outlined in phase I of the program has helped improve the effectiveness of the Mexican government's labor policies. This has been achieved by successfully integrating public and private sector participation in the design and provision of training and labor mediation services. Due, in part, to the Bank's support for the Department of Labor and Social Welfare, three fundamental objectives have been met. The first objective was to advance the development of innovative organizational models that will ensure timely, relevant training services. The second objective was to enhance the effectiveness of labor mediation services by incorporating alternate providers of job placement and training services. The third objective was to strengthen the labor authority's ability to manage, oversee, and promote the various types of contracts that determine working conditions and remuneration without adversely affecting job creation.

- 1.6 Improvements in the design and implementation of labor policies have served the Bank's and the Mexican government's shared objective of shifting from short-term, assistance-oriented programs to labor policy-based activities in the framework of a development strategy to increase productivity and competitiveness. The program has contributed to the achievement of this objective. First, technical assistance being evaluated has allowed a dynamic of change to be established in the design and implementation of labor policy. Second, the inclusion of private entities in the delivery of services, which are much more responsive to market forces when determining the type and content of job placement and training services, has made these programs more efficient and adaptive to the changing circumstances of the Mexican economy. Third, the transparency associated with the publication of clear operating rules for the programs which are disclosed to the beneficiaries has reduced the risk of political manipulation.

**B. Characteristics of the Mexican labor market**

- 1.7 The process of integration into the world economy that Mexico is currently undergoing is generating increased labor mobility in productive sectors and an increase in the demand for skilled workers. The enormous deficits in education and productive skills among large segments of the population, the lack of a training system that can deliver timely, relevant training in the skills necessary for employment in the fastest growing sectors, and a regulatory framework for the labor market that punishes labor mobility all conspire against the success of an integration strategy based on increasing competitiveness.
- 1.8 Mexico's policies since the mid-1980s have been geared towards addressing the following three key elements of the labor market: (i) to encourage the micro, small and medium-sized enterprises that employ 75% of the economically active population in urban areas to invest in training and other activities in order to improve the competitiveness of their human capital and, consequently, to protect employment in this sector; (ii) to develop employment and job counseling services to help place unemployed workers and address the retraining and placement needs of displaced workers; and (iii) to support changes in the regulatory framework with the goal of reducing administrative, regulatory, and procedural constraints that hinder growth in workplace productivity.
- 1.9 These policies have been articulated in a series of programs established by the Mexican government and are designed to work on different fronts. On the one hand, emphasis has been placed on improving the effectiveness of the job counseling and placement services of the National Employment Service and on extending the coverage of the training grant program for unemployed workers (PROBECAT) in order to help place low-income workers. On the other hand, training and productivity programs, such as the comprehensive quality and modernization program (CIMO), have been developed. CIMO provides workers with on-the-job training programs and other services designed to improve the

competitiveness of the businesses. Both PROBECAT and CIMO are being supported by the Bank under the program, in accordance with the strategy agreed upon by the Bank and Mexico for the labor market sector.

- 1.10 From a strategic point of view the Bank's cooperation with the STPS is aimed at promoting three main courses of action. The first course of action is to advance the development of innovative organizational models that can deliver timely, relevant training services. The second is to increase the effectiveness of labor mediation services by incorporating alternate providers of job placement and training services. The third objective is to strengthen the labor authority's ability to manage, oversee, and promote the various types of contracts that determine working conditions and remuneration without adversely affecting job creation.
- 1.11 The three courses of action were selected in keeping with the Bank's and the Mexican government's strategy to switch from short-term programs to structural programs for the labor market that ensure better integration of labor policies with a development strategy to increase competitiveness. This is a long-term, dynamic process to which both the Mexican governmental officials and Bank officials have demonstrated a firm commitment. Within this context, the Mexican authorities have expressed interest in the Bank's continued support after completion of phase II of the program.

**C. Phase I of the labor market modernization program**

- 1.12 The objectives of phase I are to promote labor mobility, improve employability, and increase the productivity of the economically active population by ensuring more efficient operation of active labor market programs and enhancing sector capacity to analyze, plan, and program labor market policy. In the following section the progress made during phase I (1997-1999) is discussed generally and by specific activity.

**1. Subprogram 1. Comprehensive quality and modernization program (CIMO)**

**a. Objectives**

- 1.13 This subprogram is aimed at increasing the productivity of the micro, small and medium-sized enterprises and their workers.



**b. Original goals and actual achievements: CIMO**

	Unit of measure	Phase I			Phase II		Total
		1997-1999	1997-1999	% compliance with original goal	2000	2001	
		Original goal	Actually achieved				
Workers trained	Workers	1,420,750	1,597,801	112.5%	780,000	850,000	3,227,801
Enterprises reached	Enterprises	318,035	809,652	254.6%	353,963	385,729	1,549,344
Outreach	Events	136,652	149,450	109.4%	76,181	83,018	308,649
Training extension units (UPCs)	Units	10	0	0.0%	10	0	10

1.14 The activities undertaken during phase I have helped consolidate CIMO's role as a mechanism for encouraging MSMEs to more effectively invest greater resources in training and technical support. This has been accomplished through an increase in the number of enterprises assisted (currently 70,000 per year) in a wide range of sectors and regions, reflecting the national scope of the program. More importantly, this expansion has been the result of 800 business associations helping 62 training extension units (UPCs) that operate at the local and regional levels. Under CIMO, UPCs operate directly out of business association offices. Program services have been enhanced and coverage has been expanded by forming enterprise groups that disseminate information and provide feedback on methods and procedures for ongoing improvements in productivity. The program's operational framework was consolidated by officially establishing operating regulations and mechanisms for access to program benefits. In summary, with the exception of the establishment of the 10 new UPCs, all of the original goals were exceeded. In fact, the delay in establishing the 10 new UPCs did not significantly affect fulfillment of the original goals specified under CIMO.

1.15 One of the most important achievements in this subprogram is the establishment of CIMO as an organizational model for the timely delivery of relevant training services to employed workers. The program evaluations and reports reveal that businesses assisted by CIMO, in comparison with those not assisted, experience more rapid growth in productivity, implement modern human resource management systems, and develop incentive-based remuneration systems. Overall, CIMO activities have helped develop a job counseling services market based on the direct hiring of private providers by enterprises as a way of ensuring that the services rendered meet the objective of increased productivity.

## 2. Subprogram 2. Training grant program for unemployed workers (PROBECAT)

### a. Objectives

- 1.16 This subprogram is aimed at reducing the hiring and job search costs faced by businesses and workers and increasing the placement of unemployed workers.

### b. Original goals and actual achievements: PROBECAT

	Unit of measure	Phase I			Phase II		Total
		1997-1999	1997-1999	% compliance with original goal	2000	2001	
		Original goal	Actually achieved				
Applicants	Persons	1,259,500	1,657,425	131.60%	540,000	547,000	2,744,425
Vacancies	Persons	941,000	1,333,733	141.70%	462,000	467,000	2,262,733
Counseling	Persons	1,034,000	1,014,537	98.1%	371,000	376,000	1,761,537
Placements	Persons	354,000	572,379	161.7%	168,000	173,000	913,379
Training	Grants	1,302,800	1,322,336	101.5%	581,073	322,891	2,226,300

- 1.17 During phase I, changes made in the National Employment Service (SNE) and in the operation of PROBECAT led to a significant increase in placement rates for participating unemployed workers and a notable decrease in the amount of time required for job searches. In addition, improvements were made in targeting the placement and training services, and interventions that have successfully promoted job placement (such as the mixed modality of combining technical training with internships) have been emphasized.
- 1.18 More than 1.6 million workers have benefited from job placement assistance and information services, and more than 1.3 million workers have received short-term training grants. Furthermore, the average job placement rate for those using referral services remained at 35%, and at 61% for those who received training assistance. This highlights the need to continue to improve targeting and intervention methods.
- 1.19 The introduction of job search workshops and job fairs has improved the mechanisms for linking supply and demand of labor by increasing employer sector participation. The design of this subprogram has also allowed experimentation with pilot projects for new types of intervention. For example, when the mixed modality of combining technical training with internships was extended to small enterprises, it led to a considerable increase in worker placement (76% of workers placed in MSMEs and 83% in large businesses) and a decrease in the amount of time needed to conduct a job search.

- 1.20 The basic accomplishments of this subprogram are the result of a dynamic evaluation-based design and implementation process to develop a range of services to help the unemployed find employment, and to integrate a variety of public and private providers of services for this clientele. The subprogram has helped improve the operational effectiveness of the SNE and PROBECAT and their ability to respond to changing conditions in the Mexican labor market. The integration of these programs with the State Employment Offices' operations, and the publication of their respective operating rules have increased program transparency and reduced the risk of political manipulation.

### **3. Subprogram 3. Policy evaluation and institutional development**

#### **a. Objective**

- 1.21 This subprogram is aimed at strengthening sector capacity to design, analyze, and implement labor market policies by establishing an integrated strategic planning framework.
- 1.22 During phase I, progress was made in fostering greater private and academic participation in labor market analysis by financing research on labor issues. For example, 55 interinstitutional agreements were arranged between the STPS and institutions of higher education. In addition, the Mexican Labor Research Network, based in the university sector, was established. The subprogram also contributed financially to the development of labor market surveys to guide the STPS's policy analysis and decision-making. These are important steps in developing the capacity of the STPS and academia to analyze the labor market. In particular, the ability of more researchers to access better information helps fuel high-level public dialogue on labor issues.
- 1.23 The studies called for under this subprogram were carried out at a slower pace than originally planned. This was partly due to an institutional reorganization of the STPS that removed the unit responsible for conducting the studies from the Employment, Training, and Productivity Branch, the agency directly responsible for executing the program. In addition, budget cuts at the end of the third year made it significantly more difficult to carry out studies and evaluations. To remedy this problem, the Bank agreed to step up technical assistance for and supervision of this subprogram and return responsibility for evaluating CIMO and PROBECAT to the executing agencies of these programs.

#### **4. Subprogram 4. Modernization of workplace practices**

##### **a. Objectives**

- 1.24 This subprogram is aimed at modernizing the technical and operational aspects of STPS services in order to reduce administrative, regulatory, and procedural constraints that hinder the growth of workplace productivity.
- 1.25 The activities in this subprogram are experimental and are designed to create and develop the capacity to promote modernization of labor administration. During phase I, the Bank agreed to support four key areas: (i) modernization of procedures for administration of labor law by introducing new organizational technologies and information systems to accelerate and finalize case processing before the Federal Conciliation and Arbitration Board (JFCA); (ii) analysis and dissemination of best practices for training, the promotion of productivity, and the reduction of transaction costs related to mandatory reporting of business training activities; (iii) implementation of new mechanisms that guarantee greater public and private sector participation in designing and implementing occupational safety standards; and (iv) strengthening the decentralization of collective bargaining authorities.
- 1.26 The pace of progress in these four areas has been uneven. First, with regard to labor law, there were significant delays in initiating activities designed to modernize the JFCA. These delays subsequently led to budget cuts for failing to use previously allocated resources. Second, however, with respect to training and productivity activities, a series of constraints faced by businesses in complying with administrative and registration requirements were reduced. Similar progress was made in developing a strategy to disseminate information on best training practices and in producing the necessary materials. Third, in the area of occupational safety, advances were made in developing a new regulatory model for self-inspection and the active participation of sectors involved in developing standards. And fourth, given the constraints on implementing changes at the state level, the continuation of efforts to decentralize collective bargaining authorities was made contingent on an STPS evaluation of their impact under the program.

#### **D. Other special aspects of the program**

##### **1. Impact on women**

- 1.27 As was agreed on during original preparation of the program, the STPS has shown a firm commitment to supporting women by increasing and expanding their participation in labor market programs. As a direct result of dissemination activities targeting women entrepreneurs and other activities carried out in subprogram 1, the percentage of female beneficiaries increased from 37.3% to 49% by completion of phase I. Similarly, more than 55% of the beneficiaries of the employment services and job training grants provided under subprogram 2 were women. This represents

a 20% increase since the beginning of phase I. It should also be mentioned that the strategy employed in conducting studies and surveys in subprogram 3 placed special emphasis on gender issues. Currently, a study on segregation and salary differentials by gender is being carried out and will provide information on, and a detailed analysis of, the participation of women in the labor market.

## **2. Support for differently-abled persons**

- 1.28 One of the most innovative aspects of the program has been the introduction of pilot programs that address the needs of differently-abled workers, and awareness-raising activities to educate employers about the potential productivity of these workers. Specifically, important activities for awareness-raising and dissemination of information have been carried out, and liaisons between enterprises, business associations, and NGOs have been established under subprogram 1. Since 1998, more than 5,000 grants have been awarded through PROBECAT to differently-abled persons in a range of specialties, including home appliance repair, retail trade, carpentry, and upholstery. Civil society organizations have actively participated in these efforts.

## **3. Information systems**

- 1.29 During phase I, major progress was made in procuring, replacing, renovating, and updating computer materials, with the goal of improving STPS program operations.

## **II. PHASE II OF THE LABOR MARKET MODERNIZATION PROGRAM**

### **A. Objective**

- 2.1 In accordance with the program objectives, phase II will build on the strategic achievements already made and consolidate the integration of labor policies with the long-term development strategy initiated during phase I to increase the productivity of the economically active population. This will be achieved through efficient operation of the active labor market programs and sector training to analyze, plan, and program labor policy. Phase II will incorporate a series of innovations and changes made as a result of lessons learned during phase I.

### **B. Description**

- 2.2 In the following section the main activities to be implemented in phase II will be discussed, bearing in mind that the phase I activities will continue to be supported. Included in Annex I are the benchmarks for phase II.

#### **1. Comprehensive quality and modernization program (CIMO) (US\$64 million)**

- 2.3 CIMO program objectives, specified in phase I, will be consolidated by continuing to support MSMEs, their workers, and productive projects in the process of being formalized. Ten new training extension units (UPCs) will be created and efforts will focus on consolidating and deepening an institutional framework that will increase private sector participation in program operation. The program will also expand its services for small and medium-sized enterprises.
- 2.4 Decentralization of the administrative operation of the program will be initiated in order to help achieve greater UPC autonomy and flexibility. This will allow the central organization to concentrate on regulatory and methodological aspects, including technical and training support for the decentralized units. Also, operational and substantive evaluation activities designed to promote learning about the impact of present and future operational modalities under this subprogram will be financed.

#### **2. Subprogram 2. Mechanisms for structural adjustment of the labor market, job placement for unemployed workers, and training grant program for unemployed workers (PROBECAT) (US\$125 million)**

- 2.5 This subprogram is aimed at supporting the consolidation and ongoing improvement of the STPS's job placement, training, and information services, developed during phase I. The strategy of incorporating private providers will be continued. To achieve this objective, the following program components will be carried out:

**a. Strengthening the National Employment Service (SNE)**

2.6 This component is aimed at consolidating and enhancing the quality of the services that the SNE provides to unemployed workers, through strengthening, training, counseling, and information services for the labor market, by:

- (i) Strengthening and training SNE employees at the federal and state levels;
- (ii) Remodeling and updating office space, supplying equipment, and acquiring mobile units;
- (iii) Strengthening the national computerized jobs, training, and placement networks, by procuring equipment and developing new computer systems and information services;
- (iv) Disseminating information about SNE programs and PROBECAT through dissemination and information campaigns;
- (v) Continually improving services through quality control;
- (vi) Developing SNE's technical and operational capacity to place national workers in international labor markets; and
- (vii) Enhancing mechanisms for linking supply and demand of labor through direct placement, counseling services, job fairs, and workshops for the unemployed.

**b. Employment and training program**

2.7 This component is aimed at consolidating SNE and PROBECAT actions. To reach this objective, the following activities will be carried out:

- i. The mixed modality of providing unemployed workers with classroom and practical training through short-term internships in the productive processes of businesses will be expanded to micro, small, medium-sized, and large enterprises. The goal is for this mixed modality to account for 40% of the grants awarded by program completion.
- ii. The delegation of counseling, placement, and training activities will be extended to private providers through the comprehensive training and employment services.

**c. Pilot projects**

2.8 Under this component, the following pilot projects will be carried out:

- (i) Comprehensive training and employment services,
- (ii) Basic job and job search skills, and
- (iii) Design of a productive self-management module.

2.9 Operational and substantive evaluation activities will be financed to assess the impact of this subprogram's different types of services.

**3. Subprogram 3. Policy evaluation and institutional development  
(US\$5 million)**

2.10 This subprogram is aimed at conducting studies on and analyzing the labor market. The STPS will establish internal coordination mechanisms to guarantee efficient execution of the subprogram.

2.11 This subprogram will continue to be carried out subject to the effectiveness of the aforementioned coordination mechanisms, as evaluated by the Bank. Supervision of the program will be stepped up and specific technical assistance provided in order to strengthen technical capacity in this area.

2.12 The STPS's activities for labor market surveys and the creation of the Labor Research Network will continue to be supported in accordance with the specific goals agreed on between the Bank and the STPS (see Annex I).

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

2.13 This subprogram will finance an independent analysis of the changes needed to improve the efficiency of the Federal Conciliation and Arbitration Board (JFCA) and develop a modernization strategy. With respect to information technology, the development of information networks and administration systems will be accelerated to improve the efficiency of the STPS's internal programs, as well as those that assist the public at large.

2.14 Activities related to occupational health and safety will be financed and carried out by the STPS, an agency that will also participate in the multisector global credit program (ME-0117) that is currently being prepared by the Bank. It was agreed that the training activities under the two operations would be closely coordinated. Since many of the activities to be carried out under this subprogram are experimental, ongoing evaluations will be continued during phase II to determine whether or not they should be continued.



- 2.15 Necessary steps to decentralize collective bargaining authorities will also be financed, subject to an evaluation of their impact. With respect to training and productivity, materials or methodology will be developed to train workers in improving productive processes.
- 2.16 The costs associated with regional and national monitoring meetings, workshops, seminars, or other events necessary for program execution will be financed with counterpart resources.

**C. Innovative strategies for phase II**

- 2.17 A series of innovations and changes resulting from lessons learned in phase I will be incorporated in phase II. The multiphase operation mechanism has allowed greater flexibility in incorporating innovations during execution of phase I, such as support for differently-abled persons, an activity that has been formally incorporated in phase II. A summary of the innovations and changes to be incorporated in phase II follows.
- 2.18 Subprogram 1. CIMO. Elements and mechanisms to administratively decentralize the UPCs will be introduced and tested. In addition, the participation of MSMEs will be increased. A job skills and certification system for businesses and individual consultants providing services under the program will be promoted. Evaluation activities will also be expanded to better identify the impacts of the various program modalities.
- 2.19 Subprogram 2. PROBECAT. The goal is to prioritize the importance given to various modalities within PROBECAT in order to promote the more effective ones, particularly the mixed modality (internships at businesses). New activities and pilot projects will be developed to improve the productivity of programs for the self-employed. In addition, greater integration of placement, counseling, and training services to be provided by private agencies under the State Employment Offices will be promoted. New contracting procedures will be introduced to ensure that the goals of this last innovation are met.
- 2.20 Subprogram 3. Policy evaluation and institutional development. New, well-defined internal coordination mechanisms will be established to overcome administrative delays experienced in phase I. In addition, internal capacity will be strengthened through technical support and greater supervision. It has been agreed that close monitoring of the studies and surveys action plan will also be undertaken.
- 2.21 Subprogram 4. Modernization of workplace practices. The development of information networks and administration systems will be accelerated. Ongoing evaluations will also be accelerated and enhanced so that all available resources can be used to determine whether activities should be continued or discontinued in phase II.

- 2.22 While there are no significant changes in subprograms 3 and 4 in phase II to remedy delays experienced in phase I, the Bank may recommend reducing, reorienting, and/or cancelling some of these subprograms' activities and channelling resources toward more effective activities.

**D. Cost**

- 2.23 The total cost for phase II will be the equivalent of US\$433.3 million, broken down by category of investment and source of financing as follows.

**Labor market modernization program  
(in millions of U.S. dollars)**

Category	Phase II		
	Bank (IDB)	Local	Total
1. Subprogram 1	64.0	46.1	110.1
2. Subprogram 2	125.0	164.8	289.8
3. Subprogram 3	5.0	11.0	16.0
4. Subprogram 4	4.0	11.4	15.4
5. Finance charges	2.0	0.0	2.0
TOTAL	200.0	233.3	433.3
Percentage	46.2%	53.8%	100.0%

**E. Execution of phase II of the program**

**1. The borrower, financial agent, and executing agency**

- 2.24 The borrower will continue to be Nacional Financiera, S.N.C. (NAFIN), in its capacity as financial agent and with the guarantee of the Government of Mexico. The executing agency will be the Department of Labor and Social Welfare (STPS). The Government of Mexico will assume responsibility for debt servicing on the loan and providing the local counterpart resources for the program by entering into a funding contract, which will be a condition precedent to the first disbursement of the Bank loan.

**2. General administration of phase II**

- 2.25 The STPS and the Employment, Training, and Productivity Branch will have the support of the pertinent units in the execution of program activities and the liaison provided by the Branch's Special Programs Coordination Office.

**3. Procurement of goods, works and consulting services**

- 2.26 The procurement of goods and contracts for works using the proceeds of the loan will be carried out according to the policies and procedures set forth in Annex B to

the loan contract. When the estimated cost of goods or related services is equal to or above US\$350,000, and the estimated cost of works is equal to or greater than US\$5 equivalent, international competitive bidding (ICB) will be required, in accordance with the procedures set forth in the cited annex.

- 2.27 The contracting of consulting services, including contracts for courses, will be carried out in the same way, in accordance with Bank policies and procedures that will be set forth in Annex C to the loan contract. The threshold above which an international open call for proposals will be required is US\$200,000.
- 2.28 The procurement of goods, works, and consulting services in amounts below the aforementioned thresholds will be governed by national legislation, provided they are consistent with Bank policies and procedures. In no case may conditions be established for the procurement of goods, works, and consulting services that impede or restrict the supply of goods or participation by contractors originating from Bank member countries. The direct contracting of services involving amounts equal to or above US\$10,000 will require prior written authorization from the Bank.
- 2.29 Bank supervision of competitive bidding or other forms of procurement, if applicable, in amounts below the aforementioned thresholds, and of contracts for courses and training services may be carried out by ex post evaluation and as follows:
  - (i) Supervision of the first bidding process will be carried out by ex ante, which is the standard method indicated in Annexes B and C.
  - (ii) When all parties are in agreement, supervision of bidding processes and the subsequent calls for bids will be carried out by ex post evaluation, in accordance with procedures set forth in the loan contract.
- 2.30 The project team reviewed the procedures followed by the executing agency in the procurement of goods and consulting and training services during phase I of the program, and found them satisfactory. Given the executing agency's demonstrated satisfactory capacity in this area, the Bank will oversee on an ex post basis procurement below the threshold for international competitive bidding, in accordance with procedures approved by the Bank. It is recommended that an initial mission be conducted, once the Bank's Board of Executive Directors has approved phase II, in order to establish the operational mechanism and define the parameters that will be used in the reviews, the first of which will be conducted ex ante.
- 2.31 With respect to consulting services financed with local counterpart resources, the Bank reserves the right to review and approve the names and backgrounds of the selected businesses or individual consultants before the borrower hires them, as well as the agreed upon terms of reference and the fees.

- 2.32 For contracts for training courses for the program's employees involving amounts below US\$200,000, the borrower will follow the procedures outlined below and those specified in paragraph 2.28:
- (i) Competitive bidding when the amount is equal to or greater than US\$50,000 and less than US\$200,000,
  - (ii) Shopping when the amount is equal to or greater than US\$10,000 and less than US\$50,000, and
  - (iii) Direct contracting when the amount is less than US\$10,000.
- 2.33 In the case of contracts to businesses for training courses for the program's employees in amounts greater than US\$10,000 and less than US\$200,000, a registry of consultants will be established. The criteria applied to businesses wishing to be part of the registry should have the Bank's nonobjection.
- 2.34 Given the satisfactory results of this method in phase I, the executing agency may select and contract directly for the following types of services provided by consultants or experts:
- (i) Consulting services (professional staff at the central level of the STPS, personnel appointed by the State Employment Offices, and UPC extension workers) contracted for phase I who must be contracted again for phase II. In these cases, the executing agency will directly contract these services without having to go through a new selection process, provided that eligibility and nationality requirements set forth in Annex C to the loan contract have been met.
  - (ii) Consulting services (training and technical support for businesses) under CIMO that are partially financed and directly selected by the beneficiary businesses. In these cases, the procedures to be followed will be those of the private sector, provided that due attention is paid to aspects of economy, efficiency, and reasonable pricing, and that eligibility and nationality requirements set forth in Annex C to the loan contract have been met.
  - (iii) Consulting services (training and placement) under PROBECAT provided by units of the Department of Public Education [Secretaría de Educación Pública]. In these cases, the procedures to be followed will be established in the coordination mechanisms agreed upon by the STPS and the Department of Public Education, provided that eligibility and nationality requirements set forth in Annex C to the loan contract have been met.

2.35 The borrower may also directly contract through the executing agency for the following services:

- a. Population and labor market surveys (five surveys are anticipated for an approximate annual cost of US\$4 million for 2000 and 2001) to be carried out by the National Institute of Statistics, Geography, and Information (INEGI); and
- b. Impact studies on labor migration for an amount of up to US\$360,000 to be conducted by the *Colegio de la Frontera Norte* (COLEF). These two entities provided their services efficiently during phase I. Therefore, it is recommended that they be hired again in order to benefit from their experience and technical and institutional advantages.

2.36 The borrower may also contract through the executing agency for the following services:

- a. Mexican Construction Board of Trade (CMIC) for an amount of up to US\$300,000 to conduct studies on occupational health and safety in the construction industry, an area in which the CMIC has extensive experience and technical and institutional advantages.
- b. Publicity services through television, radio, and the press, for up to the following amounts: (i) television: US\$1.8 million; (ii) radio: US\$1 million; and (iii) press: US\$600,000. The STPS has been conducting annual awareness campaigns in coordination with federal government agencies in order to identify potential beneficiaries of the SNE and CIMO and PROBECAT. The STPS has used national television and radio stations and press agencies in these campaigns, which has led to an increase in the demand for STPS services. Given the necessity of having national coverage to reach the beneficiaries, and the beneficiaries' preference for certain television and radio stations and newspapers, the mass media with the largest audience needs to be contracted. The most effective programs, media, and hours for reaching a national audience and disseminating the program's message are determined based on surveys carried out by INEGI.

#### **4. Retroactive financing**

2.37 Considering the pace of execution and disbursements during phase I, it is within the Bank's and the STPS's interest to maintain continuity in financing all the program activities. Since phase I was completed at the end of 1999, the STPS has used its own resources to continue financing all the activities called for in phase II. As a result, it is recommended that US\$40 million of the Bank's financing be recognized retroactively as reimbursement for expenditures incurred after December 1, 1999, that are considered eligible for program financing. The Bank may also recognize

expenditures of up to US\$45 million made after November 1, 1999, that are eligible for program financing, as part of local counterpart resources.

## **5. Execution period and disbursement schedule**

- 2.38 The proposed execution period for phase II is two years. The prospective loan will be eligible for disbursement once the conditions precedent to the first disbursement have been met, including evidence that the funds transfer agreement has been signed. The agreement will establish: (i) the conditions under which the borrower will transfer loan proceeds to the executing agency for program execution; and (ii) the executing agency's commitment to carry out program activities. The Bank's Country Office in Mexico has recommended that ex post review of disbursements be carried out. The cost estimates prepared for phase II subprograms will provide the foundation for planning project implementation. The following tentative disbursement schedule is consistent with implementation capacity and the availability of budgetary funds.

Labor market modernization program Tentative disbursement schedule (millions of U.S. dollars)			
Source	Phase II		
	Year 1	Year 2	Subtotal
IDB/OC	80.0	120.0	200.0
Local	100.0	133.3	233.0
Total	180.0	253.0	433.3
%	41.6	58.4	100.0

## **6. External audit**

- 2.39 During program implementation, the Office of the Comptroller General for Administration Development (SECODAM) will perform an audit of the financial statements.

## **7. Monitoring, oversight, and follow-up**

- 2.40 The Bank's Country Office in Mexico will continue to employ an ongoing monitoring system to assess the effectiveness and efficiency of the activities carried out under each subprogram. During annual meetings, the Bank and the Mexican

government will analyze overall execution and, if necessary, will jointly agree on any necessary changes to ensure optimal execution of the program.

## **8. Bank supervision**

- 2.41 The Bank's Country Office in Mexico, with the support of the project team, will be responsible for monitoring the implementation and progress of the program.

## Labor Market Modernization Program, Phase II

### BENCHMARKS

PROGRAMS	UNIT OF MEASURE	PHASE I		% COMPLIANCE WITH ORIGINAL GOAL	PHASE II	
		1997-1999	1997-1999		2000	2001
<b>PROGRAM 1</b>		<b>ORIGINAL GOAL</b>	<b>ACTUALLY ACHIEVED</b>			
trained	Workers	1,420,750	1,597,801	112.5%	780,000	850,000
reached	Enterprises	318,035	809,652	254.6% <sup>1</sup>	353,963	385,729
	Events	136,652	149,450	109.4%	76,181	83,018
	Units	10	0	0.0%	10	0
<b>PROGRAM 2</b>						
	Persons	1,259,500	1,657,425	131.6%	540,000	547,000
	Persons	941,000	1,333,733	141.7%	462,000	467,000
	Persons	1,034,000	1,014,537	98.1%	371,000	376,000
	Persons	354,000	572,379	161.7%	168,000	173,000
	Grants	1,302,800	1,322,336	101.5%	581,073	322,891
<b>PROGRAM 3</b>						
studies on labor market regional studies	Studies	134	4	3.0%	5	11
evaluation	Studies	6	0	0.0%	2	3
reports	Reports	10	4	40.0%	4	6
research	Grants	90	0	0.0%	110	100
	Surveys	7	9	128.6%	3	2
publications	Publications	120	123	102.5%	50	50
training	Courses	573,000	188	32.8%	106	90
<b>PROGRAM 4</b>						
development and implementation of programs	Businesses	2,747	13,400	487.8% <sup>2</sup>	1,830	915

increased the allocation of budgetary resources and there was a significant increase in the operational efficiency of the program.

increased the allocation of budgetary resources for this component without using Bank financing.



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**PROPOSED RESOLUTION**

**MEXICO. LOAN \_\_\_\_/OC-ME TO NACIONAL FINANCIERA, S.N.C.  
Modernization of Labor Markets Program, Phase 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 the Estados Unidos Mexicanos, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of the Modernization of Labor Markets Program, Phase II. Such financing will be for the amount of up to US\$200,000,000, which are part of the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Evaluation Report.