

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

MEXICO

**STRENGTHENING THE MANAGEMENT OF
EMPLOYMENT PROMOTION POLICIES**

(ME-L1258)

LOAN PROPOSAL

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REQUIRED
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2. Monitoring and evaluation plan
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OPTIONAL
1. Economic analysis (cost-benefit)
2. STPS institutional capacity assessment report
3. Strategies to improve SNE management and service offerings
4. Operating Rules for the Employment Support Program
5. Safeguard policy filter (SPF) and safeguard screening form (SSF) for classification of projects

ABBREVIATIONS

CGSNE	Coordinación General del Servicio Nacional de Empleo [General Coordination Office of the National Employment Service]
DGCAPL	Dirección General de Capacitación, Adiestramiento y Productividad Laboral [General Directorate of Training, Skills Development, and Labor Productivity]
DGIET	Dirección General de Investigación y Estadísticas del Trabajo [General Directorate of Labor Statistics and Research]
DGPP	Dirección General de Programación y Presupuesto [General Directorate of Programming and Budget]
ENOE	Encuesta Nacional de Ocupación y Empleo [National Occupational and Employment Survey]
ICTs	Information and communication technologies
IMSS	Instituto Mexicano del Seguro Social [Mexican Social Security Institute]
NAFIN	Nacional Financiera, S.N.C., I.B.D.
OECD	Organization for Economic Cooperation and Development
PACE	Programa Multifase de Apoyo a Capacitación y Empleo [Multiphase Training and Employment Support Program]
PAE	Programa de Apoyo al Empleo [Employment Support Program]
PES	Public employment service
SFP	Secretaría de la Función Pública [Civil Service Department]
SHCP	Secretaría de Hacienda y Crédito Público [Department of Finance and Public Credit]
SIISNE	Sistema Integral de Intermediación Laboral del Servicio Nacional de Empleo [Integrated Labor Intermediation System of the National Employment Service]
SIMS	Sistema de Información de Mercados Laborales y Seguridad Social [Labor Markets and Social Security Information System]
SNE	Servicio Nacional de Empleo [National Employment Service]
STPS	Secretaría del Trabajo y Previsión Social [Department of Labor and Social Insurance]
WAL	Weighted average life
WAPES	World Association of Public Employment Services

PROJECT SUMMARY
MEXICO
STRENGTHENING THE MANAGEMENT OF EMPLOYMENT PROMOTION POLICIES
(ME-L1258)

Financial Terms and Conditions						
Borrower: United Mexican States			Flexible Financing Facility ^(a)			
			Amortization period:		Bullet payment on 15 October 2032	
Executing agency: Department of Labor and Social Insurance (STPS)			Original WAL:		Up to 15 years	
			Disbursement period:		5 years	
Source	Amount (US\$)	%	Grace period:		Bullet payment on 15 October 2032 ^(b)	
IDB (OC):	160 million	100%	Inspection and supervision fee:		(c)	
			Interest rate:		LIBOR-based	
			Credit fee:		(c)	
Total:	160 million	100%	Currency of approval:		U.S. dollars from the Ordinary Capital (OC)	
Project at a Glance						
Project objective/description: The project's general objective is to modernize Mexico's National Employment Service (SNE) in order to help job seekers find a formal job. The specific objectives are to improve the effectiveness of: (i) job placement services; and (ii) targeted support for formal employment, while promoting gender equality. The project is expected to directly or indirectly improve all services offered by making organizational and technology improvements.						
Special contractual conditions precedent to the first disbursement of the loan proceeds: Signature of the mandate and execution contract between the borrower, NAFIN, and the STPS (see paragraph 3.1).						
Special execution conditions: None.						
Exceptions to Bank policies: None.						
Strategic Alignment						
Challenges: ^(d)	SI	<input checked="" type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI	<input type="checkbox"/>
Crosscutting issues: ^(e)	GD	<input checked="" type="checkbox"/>	CC	<input type="checkbox"/>	IC	<input type="checkbox"/>

- (a) Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take market conditions and operational and risk management considerations into account when reviewing such requests.
- (b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.
- (c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.
- (d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- (e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

- 1.1 **Macroeconomic context and labor market.** Since the 2009 crisis, the Mexican economy has grown at a moderate rate, with a GDP increase 2.3% in 2016 compared to 3% to 5% prior to the crisis. Nonetheless, several labor market indicators have improved. For example, the unemployment rate fell from 6.1% in the third quarter of 2009 to 3.1% in the first quarter of 2017.¹ Informal employment remains high, declining only 2.6 percentage points, from 59.8% to 57.2%, in the same period. Informality is even higher (78%) among the self-employed.²
- 1.2 Informality negatively impacts productivity and wages due to lower levels of job training (Alaimo et al., 2015): 66% of formal workers receive training, compared to 18% for informal workers.³ When a worker loses his or her job, the job search is ineffective because of the lack of information about vacancies, especially for vulnerable workers (Alaimo et al., 2015; Mazza, 2013). Nearly half (49.8%) of the unemployed go without a job for less than one month, which means they accept new jobs quickly, even though they may not be the best options. Many workers are thus trapped in a vicious circle where they only get informal jobs with no training and no access to better options.
- 1.3 Labor market problems particularly affect vulnerable groups, such as underskilled workers and youth. In the case of underskilled workers, i.e., those who did not complete primary education, informal employment rates are high: 87% versus 53% for other workers. Young people have high rates of unemployment (7.1% versus 2.8% for non-youth) and informality (67.5% versus 55.1% for non-youth).
- 1.4 There are also challenges in terms of gender inequality in the labor market, which have an economic cost for the country.⁴ The female labor force participation rate in 2014 was 50.1%, which is 7.1 percentage points below the regional average of 57.2%. The participation gap by gender is 34.3 percentage points, 9 points above the regional average.⁵ This low participation rate is due in part to a lack of opportunities, which creates a discouragement problem. As a percentage of the potential economically active population (EAP),⁶ 16.2% of women are inactive but available to work, compared to 5.1% of men. In other words, there are many women who would like to work, but do not seek employment. The wage gap by gender, as measured by hourly job income, is 33%, the highest in the region.⁷

¹ National Occupational and Employment Survey (ENOE).

² The definition of informality in Mexico for wage earners entails having no social security, whereas for the self-employed it refers to the informal nature of the business.

³ Módulo de Trayectorias Laborales (2015).

⁴ The OECD estimates that halving the gender gap in labor market participation would add US\$1,100 to per capita GDP by 2040 <http://www.oecd.org/publications/building-an-inclusive-mexico-9789264265493-en.htm>.

⁵ Labor Markets and Social Security Information System (SIMS) (<http://www.iadb.org/en/databases/sims/sims-labor-markets-and-social-security-information-system,20137.html>) for the 15-64 age group.

⁶ EAP plus inactive workers available for work.

⁷ SIMS, using the Mincer earnings function, correcting for selection bias.

- 1.5 **Difficulty finding formal employment.** The difficulty in finding formal employment has two main causes. First, the poor qualifications and educational/training profile of job seekers translates into skills that are incompatible with formal job openings; this problem is related to limitations in the basic education and job training cycles (Ricart et al., 2014), as well as a lack of soft skills. Second, many workers do not have the information needed to find a formal job. For example, 78.3% of job seekers resort to informal methods to find a job,⁸ especially those with less education (Mazza, 2017). Both of these problems contribute to the fact that 52.9% of businesses have problems finding qualified employees (INSEAD, 2016).
- 1.6 **The role of job placement services.** These services help reduce unemployment in the labor market through improvements in matching supply and demand (Alaimo et al., 2016). Job placement services include public employment services (PES), private employment agencies, and civil society organizations that help make connections (ILO, 2012). In countries with established PES, these services are the gateway to employment policies and coordinate all service offerings. Profiling tools determine the type of service a person needs, in order to provide the most relevant assistance (Nunn, 2016).
- 1.7 **PES best practices.** Evidence from the Organization for Economic Cooperation and Development (OECD) shows that public employment services have six pillars: (i) service offerings that meet the needs of job seekers, with profiling mechanisms for efficiently targeting support; (ii) partnering arrangements with employers; (iii) an organizational development system for efficiently using resources; (iv) information and communication technologies (ICTs) to help improve services; (v) skills development programs that are sufficiently long, and include practical and soft skills components, skills certifications, as well as programs to support entrepreneurship and labor mobility, and protect workers in unforeseen circumstances; and (vi) specific programs for vulnerable groups and women (WAPES et al., 2016; Card et al., 2015; González-Velosa et al., 2011; and ILO, 2016).
- 1.8 **International evidence on the effectiveness of job placement and skills development programs.** Job placement is a cost-effective way to connect workers with jobs (Card et al., 2010, 2015). Regional evidence also shows that job placement services may increase formal employment (Pignatti, 2016) and produces higher earnings for workers with worse job prospects (Van den Berg and Van der Klaauw, 2006). For skills development programs, the evidence in developed countries suggests small effects, especially for youth (Card et al., 2010). In the region, the impacts of these types of programs are more positive in terms of promoting formal employment (González et al., 2012; Ibarra and Rosas, 2009; Kluve, 2016). Attanasio et al. (2017), for example, find that the “Jóvenes en Acción” [Youth in Action] program in Colombia has positive impacts that are still felt 10 years later: the likelihood of having a formal job (versus any other alternative) increases by four percentage points.
- 1.9 **PES in Mexico.** The Department of Labor and Social Insurance (STPS), acting through the General Coordination Office of the National Employment Service (CGSNE), is responsible for policies on job placement, job skills development, and labor mobility. Mexico’s PES is called the National Employment Service (SNE) and

⁸ ENOE.

was created in 1978. The Bank has been supporting it since 2001 through the Multiphase Training and Employment Support Program (PACE). During this time, the SNE has become one of the most advanced PESs in Latin America and the Caribbean. It now has national coverage and operates in a decentralized manner, with 166 offices working with the governments of the 32 states to match up local employment supply and demand. It also offers 61 of the 69 services identified in the survey of the World Association of Public Employment Services (WAPES) and the IDB, which exceeds the world average (44 services) as well as the OECD average (52 services).

- 1.10 **The SNE's job placement services** offer information and assistance in joining the workforce. These services include: (i) Job Exchange; (ii) Job Portal (online access); (iii) Job Counseling; (iv) Job Placement Centers; (v) SNE by phone; (vi) State Employment System; (vii) Job Fairs (in person and virtual); (viii) Workshops for Job Seekers; and (ix) Employment Observatory (OLA).
- 1.11 The SNE also offers the **Programa de Apoyo al Empleo [Employment Support Program] (PAE)**.⁹ This program provides support to job seekers to facilitate job placement or self-employment. It has four subprograms: (i) BÉCATE, which supports skills development for job seekers to facilitate their placement through four modalities: (a) Combined Training, which promotes in-plant skills development at the employer's request; (b) On-the-Job Training, which is provided directly in the production process at work centers (normally small businesses) and is targeted to youth so that they can gain job experience; (c) Training for Technicians and Practitioners, which is targeted to youth graduating from technical schools, so that they can gain experience, technical knowledge, and crosscutting skills; and (d) Training for Self-employment, which is geared toward acquiring the skills needed to be self-employed; (ii) Promotion of Self-employment, which promotes the formalization of productive initiatives by supporting them with equipment and helping them register with the Tax Administration Service (SAT), which ensures the formality of these self-employed workers; (iii) Labor Mobility, which supports those individuals who migrate to find employment, including the Agricultural Labor Mobility program, and the Working Repatriates program; and (iv) Employment Contingency,¹⁰ which provides temporary job protection or assistance in finding a new job for workers who are facing a possible loss of employment as a result of phenomena beyond their control such as natural, economic, or health sector disasters.
- 1.12 **SNE achievements supported by the different phases of the PACE program.** The objective of the first phase, approved in 2001 (loan ME0233, 1384/OC-ME), was to improve the effectiveness of SNE services and expand coverage. During this phase, the number of people served and placed each year increased from 1,382,903

⁹ The PAE is the STPS's most important skills development program, but not the only one. The Productivity Support Program, for example, provides assistance to businesses, and skills development programs to active workers.

¹⁰ This subprogram is managed by the SNE and operates according to rules established in the PAE. It supports skills development and job placement for workers in danger of losing their jobs due to a contingency. The details of each intervention are determined on a case-by-case basis by an Evaluation and Support Committee for Job Reactivation, which is responsible for declaring the contingencies and validating actions, taking into consideration: (i) the degree of need for the activities to be implemented; (ii) their social and economic impact; (iii) the availability of resources; and (iv) no duplication of activities as a result of other programs offered by other agencies.

and 510,626, respectively, in 2001 to 2,086,140 and 549,437 in 2006. This increased coverage ties into the diversification of the methods and channels used to assist job seekers and employers, for example, by integrating computerized Internet, telephone, job center, and job fair placement systems into the Job Portal.¹¹ In addition, the Employment Observatory was created in 2006, and special features were added for serving the disabled and older adults. As part of the progress made in terms of sustainability, since 2003 the states have contributed resources to promote skills development, averaging 30% of the total PAE budget for all subprograms. The objective of Phase II (loan 1936/OC-ME, approved in 2007) was to continue to expand coverage, with 4,477,181 individuals served, and 1,222,870 placed in 2012. In 2009, a supplemental loan for Phase II (loan 2219/OC-ME) supported various activities, including the Job Contingency subprogram, which enabled 52,266 workers who contracted the avian flu to keep their jobs, at a cost of US\$11 million.

- 1.13 The objective of Phase III (loan 2736/OC-ME, approved in 2012) was to move toward integrating job matching and skills development services,¹² and improving monitoring and evaluation systems. A standardized protocol was developed for assisting job seekers and employers, and pilot projects began for its implementation. In addition, the SNE established professional development programs for employees and improved the coordination of public-private initiatives in the area of human capital, through a business coalition. An evaluation of BÉCATE in this phase (van Gameraen, 2010) showed positive impacts on earned income, the likelihood of having a job, and the likelihood of having a job with benefits. Monitoring and performance-based management activities were also strengthened, building a robust system for evaluating the operation of SNE offices. All job matching and skills development services were integrated into a database supported by the CURP personal identification code number. Incorporating the CURP made it possible to assess whether jobs were in the formal sector using administrative data of the Mexican Social Security Institute (IMSS). A total of 4,955,762 people were served in 2016, the second to last year of Phase III.
- 1.14 **Despite the progress made, there are still areas where the SNE needs to improve.** The following paragraphs describe the remaining challenges to improving the quality of service, based on the six pillars identified by the international evidence (see paragraph 1.7) and the evidence collected on the effectiveness of the SNE. These challenges reflect the need to adopt new technologies and methodological improvements recently observed at other SPEs, as well as the lessons learned from impact and process assessments of previous Bank operations to support the SNE. This need for improvement is reflected in the quality of job placements that occur through the SNE, among other things, since data provided by the IMSS six months after receiving SNE services show low rates of placement in formal sector jobs, as well as significant gender gaps (see paragraph 1.24).

¹¹ <https://www.empleo.gob.mx/>. The Job Portal provides online access to the job openings listed on the Job Exchange.

¹² The PAE operating rules include reviewing the profile of each job seeker and analyzing whether a job placement service would be more cost-effective than a skills development program. However, in practice, there is little connection between job placement services and skills development, and no clear methodology for assigning skills development programs to job seekers.

- 1.15 **First challenge: Working towards a profiling system.** Despite the wide range of services offered, the SNE's profiling system is incomplete in terms of targeting and standardizing services to assist job seekers. Currently, all services are offered to all clients through all channels, without considering the specific features of the services or the needs of the population. For this reason, a shift must be made toward targeting services to the needs of users. The SNE also needs to improve the algorithm for matching job seekers with vacancies, which is based only on an analysis of eight variables, whereas the more advanced PESs use tools such as artificial intelligence and other technologies to perform a multivariable analysis. Furthermore, the services offered by the SNE are not based on a diagnostic assessment of user vulnerability to identify the right level of support. With no mechanism for allocating services efficiently, their impact falls short of their potential.
- 1.16 **Second challenge: Strengthening partnerships with employers.** Such partnering is necessary for the PESs to maximize their contribution to the labor market. This means offering high quality services geared toward the needs of employers. Other key factors are the quality of PES staff, a good knowledge of the labor market, greater use of information technologies, and a communication strategy (Dietz, 2014; De Koning et al., 2012; Weber, 2012). Although the SNE has staff working exclusively with employers and offers them a wide range of services,¹³ less than 10% of the country's formal sector firms¹⁴ announce vacancies on the Job Portal (compared to 16% in Brazil). This can be partly explained by the absence of any system for engaging with the productive sector based on a diagnostic needs assessment.
- 1.17 **Third challenge: Improving organizational development.** Despite national coverage and an institutional framework that allows it to coordinate, monitor, and evaluate the activities of its 166 offices, as well as a system for improving staff skills, the SNE needs to strengthen its institutional structure and build its institutional capacity. In particular, the SNE needs to update its strategic approach and processes for identifying the different channels used to provide services. Furthermore, the job descriptions for the duties, competencies, and skills of its line staff have not been revised since 2008, and need updating. The professional development system for caseworkers also needs to be reoriented toward new processes and the transformation of the SNE. Lastly, the monitoring and performance-based management system should be adapted to the new circumstances of the SNE.¹⁵ Monitoring activities currently track the placement and services provided to job seekers, filling of vacancies, and financial assistance provided. There are no indicators of inputs or intermediate outcomes, or indicators for measuring the costs and effectiveness of each intervention.
- 1.18 **Fourth challenge: Modernizing ICTs.** The SNE's information and communication technologies (ICTs) enable it to post and access information on vacancies online, provide online information on vacancies to job seekers, process and verify payments, and monitor the activities of local offices. This technology infrastructure

¹³ The SNE offers 23 of the 26 services to firms identified in the WAPES-IDB survey, which is above the world average (17 services) and the OECD average (20 services).

¹⁴ Firms served as a percentage of firms registered with the IMSS.

¹⁵ The program will improve access to information used by SNE offices. This information will be available to other institutions, including the public and private Technical Training and Vocational Centers.

only meets the needs of current processes, and therefore needs to be updated along with the changes mentioned in the previous challenge. In particular, the Integrated Labor Intermediation System of the SNE (SIISNE) needs to be modified to accommodate the proposed process changes. The quality of data must also be improved, and its processing and use must be systematized. Some information essential to the matching process (such as contact information) is not being verified. In addition, there are problems in producing and analyzing reports due to the lack of a system governing how the information is handled. Another area of opportunity is to transfer part of data storage and processing to the cloud,¹⁶ which would offer flexible infrastructure and the ability to expand quickly (Leong, 2017).

- 1.19 **Fifth challenge: Making the PAE more effective.** As described in paragraph 1.11, the PAE has four subprograms. The most important is the development of skills through BÉCATE, which has had mixed results. On the one hand, the Combined Training modality has had positive results for the likelihood of having a formal job six months after the intervention (20%) and the wage received (8%).¹⁷ On the other hand, the impact is limited for the On-the-Job Training modality¹⁸ (Analítica Consultores, 2016), which illustrates the importance of reformulating this modality. In addition, a process evaluation (Cocoa, 2016) identified the need to improve the design and operability of the skill development programs. For this reason, several actions were recommended for all BÉCATE modalities, including: (i) ensure that the services are properly targeted to employers and job seekers; and (ii) design a comprehensive supervision and professional development strategy for line personnel. The study also pointed out that the tendency to shorten the duration of the interventions was limiting the effectiveness of the program. Also, the program does not offer courses aimed at remediating the soft skills of participants. Moreover, the BÉCATE certification of skills is practically useless, which represents a significant area of opportunity.¹⁹ Regarding specific issues of the On-the-Job Training modality, the evaluation of processes emphasizes the importance of instructors, who are outside consultants that organize the courses. Discontent on the part of the instructors and the difficulty of monitoring activities reduces the effectiveness of the program. It should also be mentioned that the process of assigning these different types of support could have a more strategic focus.²⁰
- 1.20 There is no evidence on the effectiveness of the other three PAE subprograms (Promotion of Self-Employment, Labor Mobility, and Job Contingency), which is problematic because these subprograms are relevant to the SNE, especially in rural areas where there are few options for working in a formal wage-earning job. It is therefore necessary to raise more awareness about these subprograms and identify

¹⁶ A careful review of applicable national laws and regulations will be necessary, to assess the feasibility of using the cloud.

¹⁷ Cocoa (2016) recommends extending the duration of these interventions and adding the certification of skills and competencies.

¹⁸ The estimated impact on the likelihood of having a formal job six months after the intervention was -23%, with no significant impact on wage.

¹⁹ As of 2017, the operating rules allow the SNE to absorb part of the cost of certification.

²⁰ Since the On-the-Job Training modality is expected to be the most effective for youth with no formal experience, the program should focus on them. However, based on IMSS data for a sample of participants in this training modality from the third quarter of 2015, it can be seen that 59% of men and 51% of women already had experience in formal jobs and only 60% of men and 52% of women were under the age of 30.

areas for improvement. In addition, the quality of the targeting of these subprograms must be analyzed to improve their impact. The Job Contingency subprogram has proven to be an effective, flexible, and efficient way to protect employment during situations arising from environmental, health, and economic contingencies that threaten employment in a specific area, region, or economic activity. However, the subprogram would also benefit from a review of its focus to ensure that the support reaches those who need it the most.

- 1.21 **Sixth challenge: Serving vulnerable groups and women through specific actions.** The SNE already has the “Abriendo Espacios [Opening Up Opportunities]” program to support older adults and the disabled. It also has the On-the-Job Training modality, which is in principle targeted to youth, although that targeting could be improved (see paragraph 1.19). However, in terms of the gender issue, the SNE has no comprehensive strategy to address the specific needs of women. SNE’s services are in high demand by women, who in 2016 accounted for 43% of the job matching services provided and 72% of the skills development programs, with significant differences in the various training modalities (see paragraph 1.23). Existing information demonstrates significant gender inequalities in job announcements, the use of services, and in the outcomes of these services. With regard to matching services, there is a clear gender bias in the business sector. About one third (33%) of vacancies received by the Job Portal specify the sex of the applicant, with 24% requesting men and only 9% requesting women. Regarding the use of skills development programs, women account for 89% of those who receive Training for Self-employment, the shortest modality and the one where there is no evidence of effectiveness, but only 44% of those who received Combined Training, where the results are better. There are also wide gender differences between the data on immediate placement in any type of job versus data on placement in a formal job six months after the intervention (see paragraph 1.23).
- 1.22 **Lessons learned.** The IDB is supporting PESs in several countries of Latin America and the Caribbean.²¹ Some of the principal lessons learned indicate the need to: (i) work in conjunction with other areas supported by the Bank in order to achieve better outcomes, which is why the project has been coordinated with other Bank divisions to incorporate specialized knowledge; (ii) identify barriers to participation in job placement programs, which is one of the objectives of the gender strategy; and (iii) promote the use of profiling systems to ensure that individuals receive the appropriate service, which is included in Subcomponent 1.1. Several lessons learned from previous operations in Mexico were also taken into consideration, including: (i) the importance of promoting not just employment, but formal employment (lesson from 2736/OC-ME).²² Accordingly, formal job placements will be reported, and the formality of the firms assisted will be verified; (ii) the importance of connections with the productive sector that posts vacancies (lesson learned from 1384/OC-ME and reinforced during 1936/OC-ME). Subcomponent 1.1 includes

²¹ The lessons learned came from the execution of the following operations: 2365/BL-BO; 2793/OC-CH; 2293/OC-DR; and 2660/OC-PR. These lessons are included in the updated Labor Sector Framework Document.

²² The results of the Analítica Consultores consulting study (2016) on the absence of any impact on formal employment contrast with the positive results of previous evaluations such as Van Gameren (2010), which evaluated loan 1936/OC-ME, and the OVE (2005), which evaluated loan 1384/OC-ME. The shorter duration of recent interventions may explain the lesser impact outcomes.

actions along these lines; (iii) improving ICTs for managing a PES (lesson from 2736/OC-ME), which is included in Subcomponent 1.1; (iv) there are problems in tracking beneficiaries (lesson from 2736/OC-ME), which gave rise to the strategy of tracking them through IMSS records; in addition to verifying the formality of placements, this will make it possible to track beneficiaries on a long-term basis at low cost; (v) labor policies may be misinterpreted when they are actually enforced (lesson from 2736/OC-ME, see especially Cocoa, 2016), included in the new management system proposed in Subcomponent 1.1; and (vi) limitations have also been observed in areas where there are insufficient formal wage-earning jobs (lesson from 1936/OC-ME), especially in rural areas. To be able to serve these areas, this operation will support Promotion of Self-Employment (Subcomponent 2.2), which promotes the formalization of small enterprises, which may be the sole option for having a formal job.

- 1.23 **Rationale.** With the Bank's support, the SNE has become one of the most advanced PESs in the region. Despite this progress, the SNE still faces significant challenges. In particular, the SNE needs to capture and promote more formal job opportunities and help reduce gender inequalities. For example, the Job Exchange, which matches job seekers with companies, has only helped 45% of men and 26% of women to have a formal job six months after the intervention. These percentages are even lower, 29% and 21%, respectively, in the case of BÉCATE's On-the-Job Training modality. Although the percentages are higher (67% and 58%, respectively) for the Combined Training modality, there is still room for improvement as well as a significant gender gap.²³ In addition, the SNE must improve its ICTs to take advantage of the opportunities afforded by technology to reach more people and more businesses with greater efficiency and better quality.
- 1.24 In view of the foregoing, this project seeks to modernize the SNE to help job seekers find formal jobs, using formality as an indicator of job quality. To make job placement services more effective, the project seeks to improve the focus of the services, the algorithm for matching job seekers with formal businesses,²⁴ the organizational development of the SNE, and the use of ICTs, and includes actions for closing gender gaps. To improve the effectiveness of the BÉCATE subprograms, innovations will be piloted during the first two years of the program, with the lessons learned incorporated starting in the third year. Mechanisms will also be strengthened to ensure the formality of the beneficiary businesses, monitoring of the formality of placements will be improved, and specific actions to improve services for women will be supported.
- 1.25 **Strategic alignment of the program.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is aligned with the development challenges of: (i) social inclusion and inequality, by promoting equal access to better job opportunities, particularly formal jobs; and (ii) productivity and innovation, by better matching the demand for workers with the supply of job seekers

²³ Gender gaps after six months with respect to formal employment occur despite minimal differences in immediate placements (in any job). The immediate placement rate measured by the SNE in 2016 does not show significant gender differences: for the Job Exchange, it is 29% for men and 28% for women, whereas for the On-the-Job Training and Combined Training modalities it is 74% for men and 79% for women.

²⁴ It is expected that services will be offered to 135,000 formal businesses each year.

through job placement and training improvements, which promote worker productivity²⁵ through the indicator “Individuals benefited by skills development in the workplace programs,” and through in-kind support for enterprises, as measured by the indicator “Economic initiatives supported.”²⁶

- 1.26 The program is also aligned with the crosscutting area of gender equality and diversity, through the indicator “Difference in the percentage of female job seekers who received job placement services (through the Job Exchange or Job Fairs) who are formally employed in the quarter q+2 versus job seekers in the control group” which is aligned with the indicator “Formal employment for women.” Paragraph 1.30 describes the specific actions that will be taken to address the gender challenges identified in paragraph 1.20. In addition, the program will contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6) through the indicators “beneficiaries of training programs in the workplace” through the output indicator “individuals benefited by skills development programs in the workplace,” and the indicator “microenterprises that received nonfinancial support” through “supported economic initiatives.”
- 1.27 This operation is consistent with the country strategy with Mexico 2013-2018 (document GN-2749) and contributes to the objective of “Promoting better job placement” by improving job placement services, and the “Number of job seekers served through the different windows (in-person job counseling, Job Portal, job fairs, training scholarships) of the Matching Services and the Employment Support Programs of the National Employment Service (SNE).” It is also included in the 2017 Operational Program Report (document GN-2884) and is consistent with the Labor Sector Framework Document (document GN-2741-7), aligned with the dimension for success “promote successful career paths while simultaneously enhancing productivity and social inclusion” (see paragraph 5.1, page 45). It is also aligned with the Strategy on Social Policy for Equity and Productivity (document GN-2588-4).

B. Objectives, components, and cost

- 1.28 **Objectives.** The project’s general objective is to modernize Mexico’s National Employment Service (SNE) in order to help job seekers find a formal job. The specific objectives are to improve the effectiveness of: (i) job placement services; and (ii) targeted support for formal employment, while promoting gender equality. The project is expected to directly or indirectly improve all services offered by making organizational and technology improvements. A total of 20 million people will benefit from the project, 517,000 through the Employment Support Program (PAE), as well as 675,000 formal economic units. To achieve the proposed objectives, the project includes the following components:
- 1.29 **Component 1. Strengthening of the SNE (US\$25.8 million).** This component will support job placement services with a national scope, and includes counseling and assistance for around four million job seekers per year, as well as 135,000 formal

²⁵ Job placement programs promote the assignment of jobs based on skills. Programs aimed at increasing human capital improve the productivity of job seekers in their jobs, particularly the most vulnerable groups (Alaimo et al., 2015).

²⁶ BÉCATE assisted 267,472 people in 2014, and 143,329 in 2015. The Promotion of Self-Employment training assisted 9,928 people in 2015, and 7,725 in 2015. A smaller budget is expected in this operation.

businesses per year, in order to enhance access to formal employment. It includes two subcomponents.

- 1.30 **Subcomponent 1.1. Support and improvement of SNE management and services.** The implementation of this subcomponent will include: (i) a review of the services that the SNE offers job seekers and the subsequent adjustment and standardization of the service model, including the development of a profiling system for assigning services in a cost-effective manner; (ii) a strategy for making connections with the formal business sector,²⁷ which includes a system for making initial contact and maintaining the relationship, a needs assessment tool, and adapting services to the employer's needs; (iii) an organizational development model that improves the delivery of services through several different channels²⁸ and builds institutional capacity, provides professional development for staff,²⁹ and updates SNE processes; and (iv) a management system based on the performance of SNE offices.³⁰ Gender equality will be mainstreamed in each of the activities of this subcomponent. In addition, the following actions will be taken: (a) diagnostic assessment to determine the causes of gender gaps in SNE's services and formulate strategies to address them; (b) implementation of the gender strategy, which will include a pilot awareness-raising and skills development program, with impact assessment, for SNE staff as well as for businesses on the importance of reducing biases; (c) organization of job fairs for women; (d) inclusion of wage negotiation content in workshops for job seekers, targeted to women; and (e) the incorporation of a heavier weighting for women in the matching algorithm.
- 1.31 **Subcomponent 1.2. Improvement of the technology platform that supports SNE operations.** This subcomponent will support: (i) updating and maintaining the technology infrastructure and information systems of the SNE that are needed to implement the improvements proposed in Subcomponent 1.1; (ii) designing an ICT strategy that builds the capacities of the SNE and establishes a system for managing the collection, processing, validation, analysis, and use of data, among other functionalities; and (iii) ICT improvement through cloud processing and storage in compliance with national laws and regulations.³¹
- 1.32 **Component 2. Strengthening of the PAE (US\$130 million).** The activities of this component include delivering, generating evidence and improving the effectiveness of the targeted support provided by PAE subprograms at the national level. Specifically, to improve the effectiveness of the PAE, pilot programs will be designed, implemented and evaluated. In each subprogram, the beneficiaries will be the job seekers who receive targeted support from the SNE. The component will

²⁷ The formality of the business is necessary to ensure that the jobs are formal. The registration of all companies in the Registro Federal de Contribuyentes [National Taxpayer Registry] (RFC) will be checked to confirm their formality. Currently, their registration number is requested but is not checked. This change will apply to all SNE programs.

²⁸ Redesigning the channels for providing the services to ensure that they are effective.

²⁹ The campaign to raise awareness about gender issues will be financed under this activity of Subcomponent 1.1.

³⁰ For more information, see the link Strategies to improve SNE management and services, as well as the mainstreaming of the gender issue.

³¹ These actions will include moving toward a business intelligence model that may include a labor market information system.

include three subcomponents, which will support the following subprograms (i) BÉCATE and Job Contingency; (ii) Promotion of Self-Employment; and (iii) Labor Mobility, respectively. All of these subcomponents are aimed at boosting formal employment.³²

1.33 **Subcomponent 2.1. BÉCATE and Job Contingency.** This subcomponent will support these two subprograms, which promote the development of job seekers' skills. The requirements to be a beneficiary of the BÉCATE program are applying for a job, being at least 16 years old, and matching the profile established for the skills development program the person wishes to enter. The pilots for this subprogram will be aimed at: (i) promoting the certification of job skills and expanding the period of support; (ii) better targeting of the services provided to employers and job seekers; (iii) promoting the development of soft skills; and (iv) reorganizing processes based on the recommendations of the Cocoa evaluation of processes (2016).³³ Each modality is described below:

- a. **Combined Training.** Development of practical skills at the request of an employer that agrees to formally hire 80% of the beneficiaries. This modality is aimed at the acquisition, strengthening, or retrofitting of skills. It is expected to support 75,000 job seekers at an approximate cost of US\$28 million.
- b. **On-the-Job Training.** Development of skills directly in the production process. This modality is geared to youth who want to gain job experience in formal companies. It is expected to support 115,000 job seekers at an approximate cost of US\$41.8 million.
- c. **Training for Technicians and Practitioners.** This modality is geared to youth who graduate from technical schools so that they can gain experience in formal companies, and acquire technical know-how or basic or cross-sector skills. It is expected to support 10,000 job seekers at an approximate cost of US\$1 million.
- d. **Training for Self-employment.** This modality will develop the skills needed to start an independent activity that is formally established, and therefore gives the entrepreneur a formal job. It is expected to support 140,000 job seekers at an approximate cost of US\$28 million. The anticipated pilot, which includes a course on managing an enterprise, is expected to have a positive impact for women, given that they are the primary beneficiaries of this modality. This modality is more relevant in rural areas where there is little access to formal wage-earning jobs.

1.34 In the case of the Job Contingency subprogram, targeted support may be offered to temporarily protect jobs through the PAE³⁴ in the event of a contingency related to

³² The operating rules explain in greater detail what PAE resources are used for.

³³ During the first two years, the program will finance the entire PAE, not just the pilots. Starting in the third year, the entire PAE will continue to be financed, with incorporation of the lessons learned.

³⁴ The beneficiaries will be workers with formal jobs who are in danger of losing them due to a contingency.

employment, the economy, health, or the environment, etc.³⁵ To provide this type of support, up to US\$3.2 million (2% of the total loan amount) may be allocated.³⁶ Up to 40,000 employees may benefit from this subprogram. In addition, the focus of this subprogram will be reviewed in order to improve its impact on beneficiaries.

- 1.35 **Subcomponent 2.2. Promotion of Self-Employment.** This subcomponent will support this subprogram, which provides in-kind support to purchase furniture, machinery, equipment, or tools to people who have the skills to start up an independent business that is formally set up and therefore gives them a formal job. To be a beneficiary of this subprogram, the person must be at least 18 years old, receive a household income of less than six times the minimum wage, and have at least six months' experience in activities related to the business they wish to start. The subprogram is expected to create 7,600 productive initiatives that will benefit approximately 23,000 job seekers, at an approximate cost of US\$17 million. The purpose of the pilot of this subcomponent includes better selection of beneficiaries based on their skills for starting up the business, so as to target support to individuals with the best prospects for success.
- 1.36 **Subcomponent 2.3. Labor Mobility.** This subcomponent will support this subprogram, which is aimed at improving the management of migration flows, and assisting those people who in order to have better employment options, decide to temporarily or permanently migrate. This subprogram has the following two modalities:
- a. **Agricultural labor mobility.** This modality provides support to job seekers who work in agricultural activities and need to move to a state other than their state of residence. Beneficiaries must be job seekers who are at least 18 years old and have a formal employment agreement with a company. It is expected to benefit 100,000 job seekers by offering them formal jobs, and will have an approximate cost of US\$9 million.
 - b. **Working repatriates.** This modality provides support to people who return to the country, state that they have no intention of emigrating again, and express their interest in finding a job. They receive a ticket to travel from the border to their final destination in Mexico, as well as support to look for a formal job. Beneficiaries must have been repatriated, be at least 16 years old, and be registered in the event lists of the Instituto Nacional de Migración [National Migration Institute]. It is expected to benefit 14,000 job seekers and will have an approximate cost of US\$2 million.
- 1.37 The project includes US\$4,200,000 for audits and evaluations. As indicated in paragraph 3.5, the executing agency will submit audited annual financial statements

³⁵ The Evaluation and Support Committee for Job Reactivation is responsible for declaring the contingency, in accordance with the PAE rules and policies. The costs of the interventions will be eligible under the Bank's policy on eligible expenses, document GN-2331-5, titled "Modernization of Policies and Practices that Restrict the Use of Resources in Investment Loans," and must have the Bank's statement of no objection prior to being reimbursed.

³⁶ This limit is consistent with PAE rules and policies. If it is not necessary to use the loan proceeds for this subprogram, those resources may be used to address the needs of other PAE subprograms.

no later than 180 days after the close of each fiscal year during the execution period. Also, as indicated in paragraph 3.7, a comprehensive evaluation of all SNE programs will be conducted, based on the tracking of formal jobs using IMSS administrative information.

- 1.38 Estimated costs by component and subcomponent are broken down in the following table:

Table I-1: Cost Table

Components	IDB (US\$)	Total	%
Component I. Strengthening of the SNE	25,800,000	25,800,000	16.1
Subcomponent 1.1. Support and improvement of SNE management and services	3,000,000	3,000,000	1.9
Subcomponent 1.2. Improving the technology platform that supports SNE operations	22,800,000	22,800,000	14.2
Component II. Strengthening of the PAE	130,000,000	130,000,000	81.3
Subcomponent 2.1. BÉCATE and Job Contingency	102,000,000	102,000,000	63.8
Subcomponent 2.2. Promotion of Self-employment	17,000,000	17,000,000	10.6
Subcomponent 2.3. Labor Mobility	11,000,000	11,000,000	6.9
Evaluation	4,000,000	4,000,000	2.5
Audits	200,000	200,000	0.1
Total	160,000,000	160,000,000	100.0

C. Key results indicators

- 1.39 The program's impact indicators are related to improvements in the job placement of beneficiaries as the result of skills development and matching programs. They include: (i) the difference in the percentage of job seekers with a formal job eight quarters after they receive assistance, using as the treatment group job seekers that receive employment matching services (job exchange or job fairs) or BÉCATE services (On-the-Job Training or Combined Training), and as the control group job seekers that only register in the job portal but do not receive any other service; and (ii) the difference in the number of months with a formal job 24 months after receiving assistance, using as the treatment group job seekers that received employment matching services or BÉCATE services, and as the control group job seekers that only register in the job portal but do not receive any other service. This information will be disaggregated by gender (see Annex II, Results Matrix).
- 1.40 The results indicators include: (i) the difference in the percentage of job seekers with a formal job two quarters after receiving assistance, using as the treatment group job seekers that receive employment matching services or BÉCATE services, and as the control group job seekers that only register in the job portal but do not receive any other service; and (ii) the difference in the number of months with a formal job six months after receiving assistance, using as the treatment group job seekers that received employment matching services or BÉCATE services, and as the control group job seekers that only register in the job portal but do not receive any other service; and (iii) the percentage of initiatives supported by the Promotion of Self-Employment program that register with the Tax Administration Service (SAT) 12 months after receiving assistance. This information will be disaggregated by gender (see Annex II, Results Matrix).

- 1.41 In terms of outcomes, indicators 13 and 16 (among others) of Development Outcomes of Countries that are “Beneficiaries of Job Training Programs” disaggregated by gender and “Microenterprises that receive nonfinancial support” will be used (see [Monitoring and Evaluation Plan](#)).³⁷
- 1.42 The cost-benefit evaluation of the project ([Economic Analysis](#)) estimates the net incremental social economic benefits (compared to the counterfactual situation prior to implementation of the project) that will be generated as a result of the modernization of Mexico’s SNE. The exercise was performed by subtracting the program’s incremental costs from the discounted flow of estimated incremental benefits. The program’s expected benefits are the result of the increased number of beneficiaries placed in formal jobs. In the base scenario, using conservative assumptions in terms of the effectiveness of the intervention, for a 10-year time horizon and using a discounted rate of 12%, there is a net cost benefit of US\$84 million. The high profitability of the project is consistent with existing evidence on active labor market policies, which in general shows that job placement services are cost-effective policies. The sensitivity analysis shows that the program is profitable in all scenarios analyzed.

II. LOAN STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This operation is an investment loan from the Bank’s Ordinary Capital. The loan amount will be up to US\$160 million. The expected disbursement period is five years. The following table shows disbursement projections.³⁸

Table II-1: Disbursements (US\$ millions)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	32	32	32	32	32	160
Total	32	64	96	128	160	160

B. Environmental and social safeguard risks

- 2.2 This program does not include activities that would have negative environmental and/or social impacts, and is therefore classified as a category “C” operation. The program’s actions seek to mitigate the factors that limit the placement of job seekers in quality jobs, thereby reducing general barriers to matching them to jobs in a manner that is equitable for all groups.

C. Fiduciary risks

- 2.3 The Bank’s experience in the execution of operations prior to the multiphase program (the third phase of which ended in 2017) and the use of the Institutional Capacity Assessment System (ICAS) shows that the STPS has a high level of institutional development as well as a suitable internal control environment, accounting systems, and systems for monitoring the operation, which can be used

³⁷ The operation is expected to support most of the beneficiaries of the PAE.

³⁸ The budget is expected to be more or less uniform over time, which would entail a uniform pace of disbursements.

to identify how resources are used in each state. The submitted audited financial statements received an unqualified opinion from the auditor for each year of execution. In view of the foregoing, two medium fiduciary risks have been identified. The first relates to possible delays in procurement processes during the transition stage after a change of government. This risk should be mitigated by retaining in this program the same technical teams that executed the PACE program and properly prioritizing procurements, as set out in the procurement plan. The second risk is associated with the possibility of a delay in one of the multiple procurement processes/contracts that must take place at the same time. To mitigate it, the more complex procurement processes will be prioritized for the first part of the year, and the availability of suppliers in the market will be analyzed.

D. Other project risks

- 2.4 Two risks have been identified with respect to the country's fiscal situation. The first relates to the availability of budget resources for skills development activities. To mitigate this risk, when estimating the program's budget, the minimum budget resources available in recent years were considered. A second risk is associated with the availability of budget funds for activities aimed at improving information technology systems and processes. To mitigate this risk, the project calls for improvement activities to be gradually implemented in phases, with subsequent resource adjustments so that the most urgent activities can be prioritized, and also includes activities to raise awareness about the program. There is also a risk regarding the timely availability of the IMSS data needed to assess the project's impact. To mitigate this risk, periodic high-level coordination meetings will be held between the SNE and the IMSS in order to prevent any potential delays. Another medium risk involves noncompliance on the part of suppliers, which will be mitigated by contracting a specialized consultant and conducting an analysis of suppliers in the market.
- 2.5 **Sustainability.** Given the experience with the three phases of the PACE, there should be no sustainability risk since the improvements proposed by the project involve programs that have remained in place through several administrations and operate using government funds as well as contributions from the states. The Employment Support Program and job placement services began before the year 2000, and the IDB's support has facilitated the continuity of their execution during government transition periods. Nonetheless, any risk associated with a change of authorities will be mitigated through close cooperation and dialogue with the business sector and civil society, which benefit from SNE programs.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the United Mexican States, represented by the Department of Finance and Public Credit (SHCP), which will designate NAFIN as the financial agent, and the executing agency will be the STPS. **A special condition precedent to the first disbursement will be signature of the**

mandate and execution contract between the borrower, NAFIN,³⁹ and the STPS. The SHCP uses the financial agent NAFIN to monitor and track investment projects. For this reason, the SHCP requires the loan contract to include this condition.

- 3.2 **Project implementation and management.** The SNE operates with a decentralized system between the federal and local governments. The CGSNE controls SNE offices and allocates resources to the state governments as well as to the government of Mexico City. The STPS will have overall responsibility for the management and implementation of the program, through the CGSNE. The General Directorate of Programming and Budget (DGPP) is the STPS unit responsible for project coordination and will submit a six-monthly status report to the Bank within 60 days after the end of each calendar six-month period.⁴⁰
- 3.3 **Procurement.** The procurement of works, goods, and services and the contracting of consultants will be carried out in accordance with the Bank's policies (documents GN-2349-9 and GN-2350-9). See Annex III, Fiduciary Agreements and Requirements.
- 3.4 **Retroactive financing.** The Bank may retroactively finance up to US\$32 million (20% of the proposed loan amount), as a charge against the loan proceeds, for eligible expenditures incurred by the executing agency prior to the date of loan approval, provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures must have been incurred on or after 18 April 2017 (approval date of the project profile), but in no case will they include expenditures incurred more than 18 months prior to the date of loan approval.
- 3.5 **Financial management and external audit.** Funds transferred to the states are recorded in the federal accounting and budget system, and beneficiary actions and payments are recorded in the Sistema de Información del Programa de Apoyo al Empleo [Employment Support Program Information System] (SISPAE), a system used to determine eligible expenses until the new management systems are set up, which are to be designed and implemented under this program. The executing agency will deliver the annual audited financial statements through NAFIN no later than 180 days after the close of each fiscal year during the execution period, and a final financial statement 180 days after the last disbursement, as extended, audited by independent auditors acceptable to the Bank according to terms of reference agreed upon with the External Audit Office of the Civil Service Department (SFP) or the entity authorized for such purpose by the federal government. External audits will be recognized as eligible expenditures under the loan.

B. Summary of arrangements for monitoring results

- 3.6 **Monitoring strategy.** The STPS will deliver six-monthly reports on outputs and activities to the Bank through NAFIN, showing the progress made in the progress monitoring report and in execution of the multiyear execution plan (MEP), annual

³⁹ NAFIN will act as the borrower's financial agent for the supervision and administration of the loan, under conditions established in the project mandate and execution contract.

⁴⁰ The report contains: an analysis of financial execution, by component; progress made in outputs, outcomes, and impacts based on the indicators in the results matrix; degree of compliance with contractual terms and conditions; summary of social and environmental assessments; and a summary of audits.

work plan, and the procurement plan, with respect to the execution support process and execution of disbursements. These reports will include the latest developments in the output and outcome indicators and program activities, as well as accounting and financial information on the management of resources. The Bank may request any additional reports deemed appropriate or advisable.

- 3.7 **Evaluation strategy.** The evaluation strategy will have a comprehensive approach. Instead of evaluating several programs individually, it will include all the programs supported by the operation. The advantage of this type of evaluation is that it offers the possibility of comparing the effectiveness of different programs using the same methodology. The outcomes of all programs that support placement in wage-earning jobs will be assessed measured in terms of access to formal employment. The formality of the job will be considered an indicator of the job's quality.⁴¹ The outcomes of job seekers who visit the job portal but do not apply for a vacant position will be compared to individuals who received various SNE services.⁴² The primary source of information will be the administrative records of the IMSS. Surveys will need to be conducted for the programs that support entrepreneurs, which have never been evaluated before. The protocols for monitoring and evaluating SNE programs will include the gender issue. Details on these strategies can be found in the [Monitoring and Evaluation Plan](#).

⁴¹ The focus on formality does not introduce a bias in the analysis because formality will be the outcome to be analyzed, not a selection filter. Given that the country's informality rate is determined through multiple factors, only the impact of SNE placements on formality will be measured.

⁴² The detailed protocol for evaluations (treatment and control groups) will be agreed upon with the Bank.