

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

MEXICO

TRAINING AND EMPLOYMENT SUPPORT PROGRAM PHASE II

(ME-L1004)

PHASE I REPORT LOAN PROPOSAL (PHASE II)

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Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Status of loans in execution and loans approved	http://ops/approvals/pdfs/MEen.pdf
Tentative lending program	http://opsgsl/ABSPRJ/tentativelending.ASP?S=ME&L=EN
Information available in the SCL/SCL technical files	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1091658
Procurement plan	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1222232

ABBREVIATIONS

BÉCATE	Becas a la Capacitación para el Trabajo [job training grants]
CESI	Committee on Environment and Social Impact
CGE	Coordinación General de Empleo [Employment Coordination Office]
COLEF	Colegio de la Frontera Norte
CONEVAL	Consejo Nacional de Evaluación de la Política de Desarrollo Social [National Council for Evaluation of Social Development Policy]
DGIET	Dirección General de Investigación y Estadísticas del Trabajo [Office of Labor Research and Statistics]
IDB	Inter-American Development Bank
INEGI	Instituto Nacional de Estadística, Geografía e Informática [National Institute of Statistics, Geography, and Information]
MSMEs	Micro, small, and medium-sized enterprises
PTI	Poverty-targeted investment
SEQ	Social equity enhancing project
SISPAE	Sistema de Administración del Programa de Apoyo al Empleo [employment support program information system]
SNE	Servicio Nacional de Empleo [National Employment Service]
STPS	Secretaría del Trabajo y Previsión Social [Department of Labor and Social Insurance]

PROJECT SUMMARY

MEXICO TRAINING AND EMPLOYMENT SUPPORT PROGRAM, PHASE II (ME-L1004)

Financial Terms and Conditions ¹					
Borrower: United Mexican States Executing agency: Department of Labor and Social Insurance (STPS)				Amortization period:	25 years
				Grace period:	39 months
				Disbursement period:	39 months
Source	Phase I (US\$ million)	Phase II (US\$ million)	Phase III (US\$ million)	Interest rate:	LIBOR
IDB (Ordinary Capital)	300	100	300	Inspection and supervision fee:	0%
Local	300	100	300	Credit fee:	0.25%
Total	600	200	600	Currency:	U.S. dollars from the Single Currency Facility
Project at a glance					
Project objective: The objective of phase II is to improve linkages between job seekers and high-quality jobs in a context of gender equality. (See paragraph 2.2.)					
Special contractual conditions: (i) Precedent to the first disbursement: sign the mandate contract (see paragraph 3.1); (ii) during program execution: (a) reimburse and retroactively recognize eligible expenses against the loan (see paragraph 3.15) and (b) present the evaluation of BÉCATE program outcomes at the end of the third year (see paragraph 3.22).					
Exceptions to Bank policies: See "Procurement" (see paragraph 3.11)					
Project consistent with country strategy: Yes [X] No []					
Project qualifies as: SEQ [X] PTI [] Sector [] Geographic [] Headcount []					
Procurement: Goods and consulting services will be procured in accordance with the procurement policies of the Inter-American Development Bank (IDB), using the standard documents coordinated between the Civil Service Department, the IDB, and the World Bank. (See the procurement plan and paragraphs 3.11 to 3.14.)					
Verified by CESI on: CESI reviewed this document at its meeting of 31 August 2007. This program has been classified as a category "C" operation. No further action is required.					

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.*

* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. PHASE I OUTCOMES

A. Frame of reference

- 1.1 The Government of Mexico, through the Department of Labor and Social Insurance (STPS), pioneered the implementation of active labor market policies in Latin America. Like other member countries of the Organisation for Economic Co-operation and Development, Mexico introduced such policies in the 1980s.
- 1.2 In line with its active policy, Mexico was one of the first countries to promote: (i) on-site training that draws on private sector cofinancing to help the unemployed find jobs; and (ii) implementation of cofinancing schemes to encourage micro, small and medium-sized enterprises (MSMEs) to invest in training tailored to their needs and focused on ongoing skills development for their active workers. The private sector has collaborated in both programs. A grant program was implemented through the National Employment Service (SNE) to encourage employers to train job seekers onsite and hire them. In the 1990s, the training grant program was strengthened, expanding the coverage of the SNE.
- 1.3 The Bank has supported Mexico in these efforts since 1997 through the labor market modernization program. The program is organized into phase I (loan 983/OC-ME) for US\$250 million and phase II (loan 1256/OC-ME) for US\$200 million. The Bank provided subsequent support through the multiphase training and employment support program, of which phase I (loan 1384/OC-ME) for US\$300 million was implemented from 2002 to 2006 (see Annex I).
- 1.4 The phase I objective of the training and employment support program was to promote worker development, employability, mobility, and productivity, and develop capacity for planning, analysis, and programming of labor market policies. The program, like its predecessors, included three key components. The first component sought to enhance labor exchange activities for the underemployed and unemployed (employment support program); the second sought to increase worker productivity in MSMEs (training support program); and the third component sought to strengthen the capacity of the STPS in terms of the operation, planning, analysis, development, and evaluation of labor policies (policy evaluation and institutional development). Crosscutting activities were included as well to promote gender equity.
- 1.5 The STPS made innovations such as the following during the program execution period:
 - a. Introduction of new Internet- and telephone-based methods of placement without training (Chambanet¹ and Chambatel²).

¹ Internet-based job bank.

² Telephone-based job bank.

- b. Reduction of the weighting of school-based job training in favor of on-site training.
 - c. Introduction of new modalities in the employment support program, aimed at establishing new instruments to respond to a changing economic environment.
 - d. Establishment of new ways of recognizing good labor practices in terms of equity, combating violence and sexual harassment in the workplace, and shared responsibility for work and family life.
- 1.6 The objectives of this document are to: (i) present the role that the Bank intends to play in connection with the economic and labor strategy developed by the Mexican government; (ii) report on the level of compliance with the phase II triggers; (iii) present a summary of conclusions from phase I evaluations and outcomes; and (iv) present the draft loan proposal for phase II of the training and employment support program to the Bank's Board of Executive Directors for consideration and approval.
- B. The training and employment support program in Mexico's and the Bank's strategy**
- 1.7 The primary goals of the strategy of President Felipe Calderón Hinojosa's administration³ include: stimulating the growth of a competitive economy that creates jobs; creating equal opportunity; and achieving environmental sustainability. As described in the National Development Plan, the first area of activity is driven by a three-pronged strategy: (i) investment in physical capital; (ii) enhancement of individual capabilities; and (iii) increased productivity growth. The objectives of this strategy are to promote central government policies and create conditions in the labor market that will stimulate the creation of high-quality jobs in the formal sector.⁴
- 1.8 The analyses performed by the Bank are consistent with the government's sector strategy. The Mexican government and the Bank concur on the need to improve, strengthen, and expand active labor market policies in order to boost productivity and competitiveness. Phase II of the training and employment support program addresses these needs.
- 1.9 The Bank's studies and analyses offer points of discussion about the STPS's strategy. The document "Creando Buenos Empleos [Creating Good Jobs]" proposes to focus program activities on worker placement in high-quality jobs, for which closer coordination is needed with the private sector, which is creating jobs. It also recommends that the STPS intervene as a productive partner with the private sector in order to raise productivity in companies. Lastly, it proposes to strengthen evaluation activities by making improvements to administrative records of

³ The 2007-2012 National Development Plan is available at <http://pnd.presidencia.gob.mx/>.

⁴ National Development Plan, pp. 29-55.

beneficiaries for purposes of impact evaluation and enhancement of monitoring systems.

C. Compliance with triggers for the transition to phase II

1.10 The phase I document (PR-2644) established that phase II could be considered for financing when the triggers are met. The **administrative triggers** are: (i) 50% of phase I disbursed; (ii) 75% of phase I committed; (iii) evidence that the process of commissioning labor market **studies and surveys** has been consolidated and systematized; (iv) progress made on evaluations to measure the impact of the program by population group; and (v) implementation of **better internal controls** at the federal and state level. The **coverage triggers** are 30% of programmed beneficiaries assisted through the employment support program and the training support program.

1.11 **Administrative triggers.** Table I-1 shows compliance with the administrative triggers.

Table I-1
Administrative triggers for phase II

Indicators	Targets met and sources of information
a) 50% of phase I disbursed. b) 75% of phase I committed.	a) and b) Met. 100% disbursed in December 2006.
c) Evidence that the process of commissioning labor market studies and surveys has been consolidated and systematized.	c) Met. Coordination with the National Institute of Statistics, Geography, and Information (INEGI) has been strengthened and there has been progress in generating and systematizing more and better information (STPS Communication CIE-2102 [31287], 31 August 2006).
d) Progress in evaluations to measure the impact of the program by population group.	d) Partially met. Annual evaluations of the employment support program and training support program have been completed, and OVE evaluated the employment support program in 2005/2006 (<i>OVE, Job Training Programs in Mexico: ME-0186 & ME-0118; and Ex-Post Project Evaluation Report, June 2006</i>). The Bank and the STPS also conducted the study “Innovaciones en evaluación de impacto del servicio de intermediación laboral en México [Innovations in Impact Evaluation of the Job Placement Service in Mexico]” in 2006. An impact evaluation of the training support program, commissioned in 2006, did not produce the minimum information needed to perform the impact analysis.
e) Evidence that better internal controls have been implemented at the federal and state level.	e) Met. Supervision has been systematized; the federal and state-level fiduciary control systems have been announced.

- 1.12 **Coverage triggers.** Activation of phase II requires compliance with at least 30% of the coverage targets and the degree of compliance compared to beneficiaries assisted in the principal modalities. Overall, the targets have been met. In some modalities the targets were substantially exceeded, while in others (training support program) the results fell short. In the employment support program, the linkage targets were met and exceeded, largely through the introduction of Chambanet and Chambatel, which significantly increased the number of services, although it also made it harder to estimate the number of persons assisted. For the training grants, 78% of the target was met in phase I. In the training support program (Component 2), 59.5% of the target number of workers assisted was met in phase I, exceeding the 30% minimum set as a trigger for phase II. The target for companies assisted by the training support program was nearly met, with 26% of companies receiving services, just below the 30% minimum. These figures can be explained by several factors, in particular: the expectation of a higher contribution from state governments to cover the program's operating costs; changes in operating rules; and a decrease in the federal expenditure. Table I-2 shows the coverage triggers and degree of compliance for each program.

Table I-2
Coverage triggers and degree of compliance in phase I

Components	Annual baseline 2000 ⁵	Programmed target 2002-2006	Target met 2002-2006
Component 1. Employment support program	Beneficiaries assisted		
1. Placement of the unemployed and underemployed (job bank, Chambatel, Chambanet, etc.)	630,000	2,185,000 ⁶	8,045,403 (368.2 %)
- Job placement centers	0	32	29 (90.6 %)
- Job counseling workshops	3,374 ⁷	5,000	31,422 (628.4 %)
2. Job training (grants)	400,000 ⁸	1,300,000 ⁹	1,013,503 (78.0 %)
- Formal employment (Financial assistance for job hunting)	n/a	n/a	290,584
3. Other linkage and employment activities			
- Productive investment projects	n/a	n/a	36,795
- Migratory workers	n/a	n/a	12,993
4. Employment support program: total assisted (lines 1+2)	1,030,000	3,485,000	9,058,906 (259.9 %)
Component 2. Training support program	Beneficiaries assisted		
5. Registered beneficiary companies	50,000	175,000 ¹⁰	44,747 (25.5 %)
6. Registered beneficiary workers	175,000 ¹¹	612,500 ¹²	364,512 (59.5 %)

n/a: Programs introduced after the startup of phase I.

⁵ When not specifically indicated, the baseline was taken from the program report (document PR-2644).

⁶ According to paragraph 2.6 of the program report (document PR-2644), the target is 1,200,000 people assisted per year by the end of the nine years of the program, starting from a baseline of 630,000 persons per year. The program's annual coverage should therefore increase at an average annual rate of 7.42%; on that basis, the cumulative total for the first three years should be 2,185,000 people assisted.

⁷ Benchmark year 2001, STPS Job Report, 2001.

⁸ Benchmark year 2001, STPS Job Report, 2002.

⁹ According to paragraph 2.9 of the program report (document PR-2644), the target is 4.4 million unemployed and displaced workers given training assistance in the nine years of the program, starting from a baseline of 400,000 in 2001. The number of workers assisted should therefore increase at an average annual rate of 4.01%, and the cumulative total for the first three years should be 1,300,000 workers assisted.

¹⁰ According to paragraph 2.16 of the program report (document PR-2644), the target is 100,000 companies assisted per year by the end of the nine years of the program, starting from a baseline of 50,000 companies. The program coverage should therefore increase at an average annual rate of 8%, and the cumulative total for the first three years of the program should be 175,000 companies assisted.

¹¹ Calculation based on the information given in paragraph 2.16 of the program report (document PR-2644), which establishes 3.5 workers per company assisted.

¹² Calculation based on an average of 3.5 workers per company assisted, as established in paragraph 2.16 of the program report (document PR-2644), multiplied by the 175,000 companies set as the target by the end of the first three years of the program.

D. Evaluation of outcomes of the training and employment support program

- 1.13 In line with the mandate of the Mexican Congress and under agreement with the Bank, the STPS carried out annual evaluations of the employment support program and the training support program.¹³ Progress was made in the impact evaluation employment support program, which constitutes 75% of the total for the program, particularly in 2005 and 2006 (OVE, Flores, and Calderón). The major findings of these evaluations are described in the following paragraph. Several of the new modalities were not evaluated using formal impact evaluation methods because methodological problems made it difficult to gather conclusive data for all the subprograms and modalities.
- 1.14 The **job training grants program (BÉCATE)**, which provides support for training the unemployed or underemployed (OVE, 2006), received the most rigorous evaluation. This evaluation uses quasi-experimental techniques in an effort to control potential problems of bias in selection. In other words, the beneficiaries of BÉCATE decide to participate for reasons that also independently affect the variable that the program is intended to impact. The evaluation is based on comparison groups identified ex post based on the National Quarterly Job Survey according to ex-ante characteristics similar to those of the beneficiaries, using the job survey rotating panel whereby the survey subjects are followed for five quarters. Although this is not an ideal benchmark group, it is the only one available against which to compare progress in the next phase. The evaluation compared the outcomes of the combined training modality (carried out on-site, which also provides job experience and contact with the working world) with a comparison group. The comparison showed that the rate of employment of participants in the combined training is 6 to 10 percentage points higher than that of the comparison group. The impact on the rate of employment in the formal sector was significant as well, with a differential of 11 to 20 percentage points.
- 1.15 The **formal employment program (formerly the financial support system for job seekers)** serves the unemployed with formal job experience by providing financial assistance during the job search to prevent them from migrating into the informal sector. The results show high rates of employment in the formal sector, approximately 20 percentage points higher than the comparison group (OVE, 2006).
- 1.16 An impact evaluation of the **job placement services**¹⁴ indicates that individuals who obtain a job through the job bank, Chambatel, or Chambanet receive a higher monthly income and work more hours per week than the comparison group, even when there are no significant perceived differences between men and women in the likelihood of finding work. Another service that was introduced, the Observatorio

¹³ This requirement, which placed a considerable administrative burden on the STPS, was recently replaced by the creation of National Council for Evaluation of Social Development Policy (CONEVAL) and the publication of its guidelines in the Official Gazette of Mexico on 31 March 2007.

¹⁴ Flores-Lima, 2007

Laboral [Employment Observatory], is a web portal that provides pertinent information on occupational and educational options. It has become one of the federal government's most frequently consulted on-line public services (488,000 visits in 2006).

- 1.17 The job placement rates for the employment support program as a whole saw no substantial change, which can be explained at least in part by the sluggish economy and low numbers of high-quality jobs created. In addition, there was a substantial increase in job placement services through technological media, which by their very nature have lower placement rates.

E. Lessons learned for the transition to phase II

- 1.18 **Expansion of technological media.** The introduction of technological support media as part of the labor exchange activities of the employment support program has significantly expanded the scope of the program, giving more workers access to labor market information at low cost. The job placement rates resulting from this type of intervention are naturally lower than those achieved through the combined training program and rank slightly lower than international averages for the job counseling modality (around 30% to 38%). Improvement and expansion of these instruments will be a crucial consideration in the future, in the expectation of improving the capacity of employment services staff to counsel job seekers and help companies fill vacancies. This activity will be strengthened by establishing closer cooperation with companies and with local associations and organizations.
- 1.19 **Focused efforts.** In on-site training for the unemployed (the BÉCATE program), the combined training instrument has produced the highest rates of job placement and has had the advantage of increasing unemployed workers' share of the total number of training grants. A key challenge is to focus the program on achieving the best mix of impact and coverage, ensuring that the grants are used for placement in high-quality jobs.
- 1.20 **Regional strategy.** There are significant perceived differences between Mexico's 32 states in terms of the demand for jobs and training and the delivery of services. The suggested methodology therefore is to increasingly use the potential for high-quality jobs and the number of large companies and MSMEs as the basis for resource allocation to the states. Increasing the weight of these criteria will improve the program's ability to meet the demand represented by individuals and companies. The state employment offices and their coordination with the local private sector should also be strengthened.
- 1.21 **Efficiency of services delivered through the employment support program.** During phase I, the various systems for obtaining, recording, and accessing information on job seekers could not be coordinated. In some cases, moreover, the number of job counselors was insufficient to meet the demand. There is a clear need for improvement of job counseling techniques, in view of the diversity of participants who will be assisted by the SNE through the Job Portal, a national website with links to regional job banks. It is also important for SNE staff in each

state to become more knowledgeable about business dynamics and to promote the program to growth sectors so as to attract more high-quality jobs. With these limitations identified, progress in the future towards one-stop shopping and systematized, automated procedures at SNE offices will boost the efficiency of customer service.

- 1.22 **Strategic vision on gender issues.** Phase I identified gender-related lines of action without the benefit of an overall strategic plan for achieving the development objectives. Gender-related needs require a strategic vision at the macro level to help change labor practices that perpetuate inequities, bias, and unequal opportunity among women and men in economic contexts.
- 1.23 **Consolidation of internal agreements.** As to the “policy evaluation and institutional development” component, during phase I, persistence in establishing interagency agreements between the STPS, INEGI, and other agencies to conduct labor market surveys and systematize and disclose labor market information electronically, such as through the Job Information System, have put Mexico at the forefront in Latin America in terms of generation and accessibility of employment and training data (see www.observatoriolaboral.gob.mx). Improvements are needed, however, in the agreements between divisions of the STPS, in order to adapt the surveys and information systems for purposes of monitoring and evaluating the impact of labor market policies. The new guidelines for evaluation of federal programs issued by the National Council for Evaluation of Social Development Policy (CONEVAL) have opened a window of opportunity for rapid, systematic progress in that direction.
- 1.24 **Evaluation.** Based on the experience of phase I, the program will consolidate the plan for labor market surveys and strengthen the STPS’s capacity to establish a monitoring and impact evaluation system. This task will be essential for helping the STPS adhere to the CONEVAL guidelines. Quantification of the costs and outcomes of the different strategies pursued under the training and employment support program is expected to be a prerequisite for identifying the most effective ones and refining the cost-effectiveness estimates, while promoting the redesign of modalities based on the outcomes. For monitoring of the employment support program, beneficiary records have already been consolidated in response to the need for a master information system and a breakdown of costs by unit, so that the most effective and efficient strategies can be identified.

F. Conclusions and recommendations

- 1.25 The commitments of the new administration in Mexico and the employment-related objectives of the National Development Plan form a solid foundation on which to implement the second phase of the training and employment support program. Phase II will broaden the scope of its programs and introduce improvements aimed at transforming it into one of the principal employment policy instruments of the current administration.

- 1.26 **For the employment support program**, the lessons learned have led to the following recommendations: (i) simplify procedures, increase the number of job counselors at the SNE, and train them to offer improved counseling to job seekers and service to companies. A larger, more professional staff of job counselors will ensure that high-quality jobs are pursued more proactively, with services focused on the most dynamic economic sectors and geographic areas. These changes will produce a larger impact and ensure that placements are monitored to verify job quality; (ii) channel more resources into on-site training grants aimed at job placement and into financial assistance for job seekers (financial support system for job seekers/formal employment program) because the evaluations that are available report good rates of job placement and high-quality jobs with these modalities; and (iii) support the Job Portal, which will be a website that centralizes nationwide information on jobs and counseling (including some of the information generated by the Employment Observatory and the Job Information System). This website will list every electronic job bank in Mexico and serve as a clearinghouse for job vacancies in the public and private sectors, while establishing mechanisms for collaboration and hosting virtual job fairs. The portal will give job seekers access to job applications and other forms to expedite the job placement process.
- 1.27 In regard to the **training support program**, on the basis of the factors mentioned in paragraph 1.12 and other considerations, the STPS and the Bank agreed not to finance the program while the STPS reformulates it. Instead, at the request of the STPS, the Bank will provide technical assistance for the program. The Bank may reinstate financing for the program during phase II if the STPS so requests.
- 1.28 **On the issue of gender**, it was agreed with the Office of the Deputy Secretary for Human Development for Productive Labor to resume the activities specified in phase I with a strategic vision that seeks equality between women and men.
- 1.29 The recommended strategy for **strengthening the institutional capacity of the STPS** is to continue working with it to develop an evaluation system in coordination with INEGI and CONEVAL and strengthen information systems and technological media.
- 1.30 **Framework for financing phase II.** Under the new financing scenario in which the Mexican government is adjusting the financial contribution of multilateral organizations in strategic programs, proceeds from the Bank's loan (US\$100 million) will be channeled into the most successful lines of action, while technical-cooperation operations will be experimented with in specific areas that can help broaden the impact and innovation of phase II. A decision was made to use the loan for phase II to:
- a. Focus the Bank's resources on the BÉCATE program, which has produced the best job placement results.
 - b. Further strengthen the monitoring and evaluation systems in collaboration with CONEVAL.

- 1.31 For the various technical-cooperation operations, a decision was made to: (i) develop a mechanism to support program analysis and a monitoring and impact evaluation system in coordination with CONEVAL (ME-T1037); (ii) support the development of a strategic vision on gender issues with the Mexican government and ensure that crosscutting issues of gender and social inclusion are integrated into federal programs (ME-T1039); and (iii) deepen public-private partnerships to broaden the scope of the training and employment support program (employment support program/training support program) through technical-cooperation operations (ME-T1039 and others at the request of the STPS), e.g., for the employment support program, improve procedures for service delivery and rightsize the SNE.

II. PHASE II

A. Objectives and description

- 2.1 The context for phase II draws on the phase I objectives and Mexico's National Development Plan. In other words, the program will promote worker development, employability, mobility, and productivity in a context of gender equality. These features are expected to increase competitiveness, with the goal of producing conditions in the labor market that spur the creation of high-quality jobs in the formal sector.
- 2.2 Against this backdrop, the objective of phase II is to improve linkages between job seekers and high-quality jobs in a context of gender equality. The STPS and the Bank have agreed to focus the Bank's financial support on two specific areas of activity: (i) the BÉCATE lines of action; and (ii) policy analysis and survey programs, monitoring and evaluation, and studies, while maintaining a technical dialogue in all areas of the training and employment support program that the STPS deems appropriate, including the crosscutting issue of gender. Based on empirical evidence, which corroborates positive outcomes and impacts in BÉCATE, as well as in job placement and guidance, and the fundamental importance that the Mexican government and the STPS are placing on evaluation, it was agreed that the work will focus on the following areas of the training and employment support program:
- 1. Component 1. Activities under the employment support program (US\$85 million; Bank)**
- 2.3 The employment support program encompasses activities aimed at improving the efficiency of the SNE and extending services to more beneficiaries by expanding labor exchange systems, job counseling, training (BÉCATE), advertising services, and other activities. The combination of these activities supports job placement through intermediation services for job seekers and financial support for employment, while taking into account regional differences.

- 2.4 Financing will be provided for grants under the BÉCATE program to step up worker entry into formal jobs and increase grant coverage for on-site training. Priority will continue to be given to financing **combined training** (on-site training for one to no more than three months) in large companies and MSMEs, mainly in growth business areas and sectors. To that end, partnerships with intermediary organizations in the private sector will be strengthened. BÉCATE is expected to assist 275,000 people during phase II.
- 2.5 The STPS will perform activities that will not be charged against the loan. It will integrate the telephone- and Internet-based placement systems and expand the coverage of the job placement centers and employment events (job fairs, job-hunting workshops, campaigns). The integrated system will be incorporated into the Job Portal. In addition to vacancies, the portal will provide: (i) partial information from the Employment Observatory and the Job Information System, information on training programs, and the requirements and forms needed to take part in SNE programs. It will also provide a master list of every electronic job bank in Mexico.
- 2.6 The STPS also plans to strengthen the process by which SNE offices provide job counseling and refer job applicants, if possible in coordination with the private sector. These efforts will include activities to improve and expand the coverage of the SNE, as well as to improve the linkage between job seekers and job vacancies and/or training opportunities. To that end, the STPS will promote training for job counselors so they can more effectively and efficiently match company needs with individual ambitions, in order to perform a more thorough evaluation of the needs of job seekers and improve customer service to youth, women, and vulnerable groups. The expectation is that systematizing the component parts of the job guidance process—admission of job applicants, job counseling, and referral for a position—will improve customer service and raise the efficiency of the SNE. The job placement system is presently active in 29 of the 147 SNE offices. Under Phase II, this system will be extended to all offices that request it, and technical support will be provided to extend the system to other institutions in the business and education sector. The Bank will work with the STPS, at the latter's request, through one or more technical-cooperation operations, to deepen cooperation in each state between the local SNE offices and the local business organizations.

2. Component 2. Surveys, monitoring, and evaluation (US\$15 million; Bank)

- 2.7 Financing will be provided for activities that will strengthen the institutional capacity of the STPS to develop, analyze, and evaluate labor policies. Financing will also be provided for the impact evaluation studies for the employment support program (BÉCATE and any others indicated by the STPS) several surveys, including: (i) the National Occupational and Employment Survey 2007-2009, a state-level survey of urban areas; (ii) the National Survey of Education, Training, and Employment, a nationwide survey; (iii) the National Microenterprise Survey; (iv) the National Survey of Employment, Wages, Technology, and Training; and

- (v) other special surveys as identified with the Bank. Any modifications to the surveys that are needed to generate data for evaluating the employment support program will be coordinated with INEGI. In addition, financing will be provided for advertising services to support activities to promote the program in general.
- 2.8 The STPS is establishing a unit that will monitor and evaluate the employment support program and the training support program. To complement these activities, technical-cooperation operation ME-T1037 will finance the design and launch of a CONEVAL-compliant *monitoring and evaluation system* that will: (i) update pertinent indicators for each modality and service; (ii) provide technical support for the implementation of an impact evaluation strategy; and (iii) revise methodologies to incorporate costs and benefits to perform the evaluations. The impact evaluation studies for the employment support program (BÉCATE, job counseling, formal employment, and any other studies indicated by the STPS) will be financed through the loan.
- 2.9 The monitoring and evaluation system will benefit from a closer relationship with CONEVAL and INEGI. Agreements will be sought with these two organizations to include questions in the surveys that ask for information and data needed to evaluate the various programs under this operation, e.g., follow-up information on individuals and companies assisted.
- 2.10 **Crosscutting gender issue.** The STPS is also planning a series of activities in phase II along the crosscutting lines of gender and social inclusion that were designed into phase I, with the added benefit of a strategic plan and an activity aimed at creating a distinguishing mark of gender equality in the workplace. These activities will not be financed under the program, but rather through technical assistance. They include: (i) an awareness campaign to draw companies that employ women in particular to the training and employment support program; (ii) a pilot for a new system of childcare services in some beneficiary companies, with the business sector and/or employee associations responsible for the infrastructure, and the STPS in charge of staff training; (iii) design and implementation of a training course on gender equality in the workplace, for counselors at the SNE employment offices; (iv) studies, research, and surveys that will provide better analysis and evaluation of gender issues in areas that are crucial to women's participation in the program; and (v) creation of a distinguishing mark of gender equality in the workplace that can be used to brand products, services, logos, etc. to publicize the gender commitment of the beneficiary company. Support for the design and strategic planning of these activities will come from the technical-cooperation operation (ME-T1039).
- B. Cost and financing**
- 2.11 The estimated cost of phase II of the training and employment support program is US\$200 million, of which 50% (US\$100 million) will come from the local counterpart in the form of cash and in-kind resources. Proceeds from the Bank's

loan will be used to finance BÉCATE (Component 1) and surveys, monitoring, and evaluation (Component 2).

Table II-1
Cost of phase II (US\$ million)

Component	IDB	LOCAL	Total
1. Employment support program	85.0	96.5	181.5
Job training (BÉCATE)	85.0	96.5*	181.5
2. Surveys, monitoring, and evaluation	15.0	3.2	18.2
Auditing	0.0	0.3	0.3
Inspection and supervision fund	0.0	0.0	0.0
Total	100.0	100.0	200.0

* This amount includes contributions from the federal government, local entities, and companies.

C. Targets and indicators for phase II

- 2.12 The logical framework for phase II is presented in Annex II (see Annex II – Logical Framework). Every indicator was identified and set jointly by the STPS, CONEVAL, and the Bank .
- 2.13 Phase III will be activated upon compliance with the performance targets indicated in the phase II logical framework. The administrative triggers that demonstrate progress in the execution of phase II can be consulted in Annex II.

III. PROGRAM IMPLEMENTATION

A. Borrower and executing agency

- 3.1 The borrower is the Government of the United Mexican States, through Nacional Financiera, S.N.C., as the financial agent. The executing agency will be the Department of Labor and Social Insurance (STPS). As a special condition precedent to the first disbursement, a mandate contract between the borrower, Nacional Financiera, and the STPS must be signed and in force.

B. Program execution and administration

- 3.2 The STPS, through the Employment Coordination Office (CGE) and the Office of Labor Research and Statistics (DGIET), will have overall responsibility for program administration and execution. In order to coordinate activities related to implementation of program components, it will have the support of the Dirección General de Programación y Presupuesto [Programming and Budget Office], which will serve as a one-stop window for both external entities and STPS units, to consolidate information and provide monitoring and advisory services for all program activities.
- 3.3 The Federal Employment Law assigns the following objectives to the STPS: (i) study and promote job creation; (ii) promote and supervise job placement;

- (iii) organize, promote, and supervise worker training and skills development; and (iv) keep records of job skills. The STPS now has the CGE, which will be responsible for Component 1, through the SNE; the CGE operates under the Office of the Deputy Secretary for Employment and Labor Policy. The DGIET, which also reports to the Office of the Deputy Secretary, will be responsible for Component 2. It will coordinate with the CGE, the Coordinación Técnica de Proyectos con Organismos Financieros Internacionales [Technical Coordinating Unit for Projects with International Financial Institutions], and the monitoring and evaluation unit, as applicable. Placing responsibility for Components 1 and 2 under a single office will promote coordinated management, improve monitoring of operations, and facilitate agreements with local governments and business organizations.
- 3.4 The SNE operates in a decentralized framework at both the federal and state government levels. The CGE governs the SNE and transfers resources to the state governments and the Federal District, which in turn contribute additional resources and run the state-level SNE offices.
- 3.5 The Office of the Deputy Secretary for Human Development for Productive Labor will have responsibility for gender-related activities and targeted support for vulnerable groups.
- 3.6 **Financial administration.** Based on the positive experience in phase I, the Bank will rely on the program-related work of the internal control agency, supervision by Nacional Financiera as an intermediary, and the supervisory report on the executing agency's operating areas. During phase I of the program, the STPS developed a monitoring system to enable it to integrate the budget execution information in order to streamline expenditure classification according to the program's investment categories, simplify the presentation of disbursement requests to the Bank, and support financial and administrative control of the operation. This system will be used to strengthen financial monitoring in phase II, and the search will continue for ways to simplify financial/administrative management for the executing agency and the Bank, in an effort to eliminate duplication and reduce transaction costs.
- 3.7 **Program organization.** The program will be implemented at two levels: (i) federal, where the program will be carried out using the organizational framework mentioned above; and (ii) state, where the state SNE offices will deliver services provided under the employment support program. The CGE governs the SNE and transfers resources to the state governments and the Federal District, which in turn contribute additional resources and run the state-level SNE offices.
- 3.8 **Execution of component 1. Employment support program.** The CGE will be responsible for this component. It manages the SNE, which has 2,500 employees and about 150 offices in 31 states and the Federal District and serves over 4,300 communities. As to specific operational matters, the Bank and the STPS will use the employment support program operating rules published in the Official Gazette of Mexico, only in the section pertaining to BÉCATE applicable to the

loan. This version of the rules has been reviewed by the Bank and found to be suitable for implementation of this component.

- 3.9 **Execution of component 2. Surveys, monitoring, and evaluation.** The CGE and the DGIET will be responsible for this component. The CGE will set up and run the monitoring and evaluation system, identify and commission the surveys and evaluation studies for the employment support program (BÉCATE and any others indicated by the STPS) and other specialized studies, and publish the findings. To this end, it will establish ties with CONEVAL, through the STPS Monitoring and Evaluation Unit. The DGIET will conduct surveys, periodically disseminate statistical information and perform analyses of the labor sector, and strengthen labor market information systems.
- 3.10 **Execution of the crosscutting gender element.** The Office of the Deputy Secretary for Human Development for Productive Labor will work with the Bank to execute the technical-cooperation operation (ME-T1039) on gender and social inclusion and will carry out technical-cooperation activities, which are tentatively described in paragraph 2.10. However, in light of a preliminary plan to reorganize the STPS, the specific area to be assigned responsibility for execution will be designated after the new organizational structure is approved. The operating rules applicable to these activities will be defined and agreed on in the context of the technical-cooperation operation and may include rules and procedures already in use at the STPS.

C. Procurement

- 3.11 Goods and consulting services will be procured in accordance with the provisions set forth in documents GN-2349-7 (“Policies for the procurement of goods and works financed by the Inter-American Development Bank”) and GN-2350-7 (“Policies for the selection and contracting of consultants financed by the Inter-American Development Bank”), using the standardized documents coordinated between the Secretaría de la Función Pública [Civil Service Department], the World Bank, and the IDB for competitive processes.
- 3.12 The **procurement plan** will be updated annually or as required during program execution, and each updated version will be subject to Bank review and approval. Goods and services, including consulting services, will be selected and contracted in accordance with the plan approved by the Bank and respective updates. The procurement supervision plan for procurements subject to ex-post review may be based on the national fiduciary systems as provided in the procurement plan.
- 3.13 The STPS may directly contract the services of: (i) INEGI, for various surveys and specific modules (see paragraph 2.7); and (ii) Colegio de la Frontera Norte, for various surveys and specific modules related to migration. These contracts have estimated cumulative values of up to the equivalent of US\$16 million and US\$2 million, respectively. Direct selection of these institutions, which were contracted directly and noncompetitively in phase I, is justified as a general exception to the rule set forth in paragraph 3.12 of document GN-2350-7, as a

natural continuation of the services provided in phase I (see paragraph 3.10 (a) of document GN-2350-7), for purposes of maintaining the continuity of the technical focus, experience, and professional responsibility demonstrated by these entities in the provision of services required by the program under loan 1384/OC-ME and the new program. To date these institutions have provided their services in a satisfactory manner.

- 3.14 The STPS may also directly procure television, radio, and print advertising services with an estimated cumulative value of up to the equivalent of: (i) television: US\$2.8 million; (ii) radio: US\$1.2 million; and (iii) print media and other publications: US\$1.5 million, to inform the beneficiary population about the demand for the services offered by the STPS. Owing to the need for national coverage to reach the population expected to benefit from these services, and since the television, radio, and print media preferences of this population may vary, ads should be placed in the media with the broadest coverage. The procurement of television, radio and print media services has been proceeding satisfactorily under loan 1384/OC-ME.

D. Execution period and disbursement schedule

- 3.15 Phase II activities will take place over an execution period of three years and a disbursement period of 39 months. Eligible expenses incurred as of 1 January 2007 may be reimbursed and recognized against the Bank's loan for up to US\$20 million and against the local counterpart contribution for up to US\$20 million. The disbursement schedule is presented in Table III-1.

Table III-1
Tentative disbursement schedule for phase II (US\$ million)

Source	Year 1	Year 2	Year 3	Total
IDD	20	40	40	100
Local	20	40	40	100
Total	40	80	80	200
%	20	40	40	100

E. External auditing for phase II

- 3.16 An independent firm will continue to perform financial audits during phase II. In view of the positive experience in phase I and the findings of the risk analysis performed on the program and the executing agency, the operating audit required in phase I will be discontinued. External financial control will continue to be exercised by an external auditing firm. The selection process for the auditing firm will be coordinated by the Civil Service Department, which will assist in analyzing the advantages and disadvantages of retaining the auditor used in phase I. At the same time, the Bank's Country Office in Mexico will continue its conversations with the appropriate government authorities to determine the feasibility of using the reports from the internal control agencies and Mexico's highest auditing authority to

strengthen fiduciary oversight and simplify the terms of reference for external auditing of the program, in an effort to avoid duplication and lower costs.

- 3.17 Similar to the procedure followed in phase I, the program will continue to be monitored by way of periodic and annual meetings and reports. The executing agency will submit a semiannual report by 30 June, and the second report will be completed with the information presented in the audited financial statements and the technical performance information published monthly on the STPS website.
- 3.18 According to Art. 7.03 of the General Rules, the audited financial statements will be delivered to the Bank within 120 days after the end of each calendar/fiscal year. The audits will be financed using the resources from the local contribution and will be performed by a firm acceptable to the Bank in accordance with the terms of reference agreed on with the Bank. Fiduciary oversight will rely on the national systems of monitoring and evaluation, particularly the systems that will be established by the Mexican government through CONEVAL. These activities will be supported by the Bank through the technical-cooperation operation (ME-T1037) and specific technical assistance. The Mexican government and the Bank regard the establishment of the monitoring and evaluation system for federal programs as a fundamental underpinning of the performance evaluation system to which all federal programs are subject under the Federal Budget and Financial Responsibility Law.

F. Monitoring and evaluation

- 3.19 The impact evaluation studies of the employment support program/BÉCATE will be financed using the loan proceeds, in accordance with the impact evaluation guidelines issued by CONEVAL.
- 3.20 Phase II of the training and employment support program will have a system for the continual monitoring and evaluation of indicators, the impact identification strategy, methodology, implementation, and the capacity of computer systems to record data and generate the appropriate reports. As to the phase II evaluations, no additional periodic evaluations will be required beyond those that the STPS will submit to CONEVAL. The only requirement will be an impact evaluation in connection with evaluations specified in coordination with CONEVAL for the employment support program. This evaluation will be based on the indicators in the logical framework, which also sets the schedule of indicators, the means of verification, and the indicators to be used to monitor program execution. In the future, should the STPS again request that the training support program be included in the operations financed by the Bank, the STPS will also request technical assistance in the area of impact evaluation for this program.
- 3.21 In relation to BÉCATE, specifically for phase II, the evaluation of the job training programs will be designed with consideration given to the following points:
 - a. At present, the Job Placement and Tenure Survey generates information that is crucial to continued monitoring of the job placement rate achieved by

BÉCATE and the formal employment program. The CGE thinks it will be possible, however, to use the employment support program information system (SISPAE) to generate information on the status of all beneficiaries. This would mean that in the future it would not be necessary to conduct the Job Placement and Tenure Survey for the purposes it has been fulfilling. The CGE will need to determine when the SISPAE can generate the information now obtained through the survey, so the survey can be retired.

- b. Since, by that time, the SISPAE will be generating beneficiary information three months into the courses, the impact evaluation is intended to generate information six and twelve months after the end of the courses.
 - c. Taking these points into consideration, the proposal is to generate the information as follows:
 - (i) **Beneficiaries.** The baseline information on the beneficiaries will be obtained from SISPAE records. A representative sample will then be taken, and a follow-up survey will be conducted during the third and fifth quarters.
 - (ii) **Comparison group.** The information for a comparison group will be obtained from the National Occupational and Employment Survey. From this survey, in the first quarter a comparison group will be chosen that fits certain characteristics that have yet to be determined, but will be defined by the baseline of beneficiaries. This group will be asked certain questions in the third and fifth quarters.
- 3.22 The impact evaluation of the BÉCATE program will be delivered at the end of the third year.

G. Environmental and social review

- 3.23 The Committee on Environment and Social Impact (CESI) reviewed the evaluation report on 31 August 2007. This program has been classified as a category “C” operation. There are no risks of adverse environmental or social impact during the execution of phase II of the training and employment support program, because it finances technical assistance and financial support for job seekers. The computer systems for the monitoring and evaluation system are not expected to have an adverse environmental or social impact either.

H. Social equity and poverty reduction classification (PTI/SEQ)

- 3.24 This operation qualifies as a social equity-enhancing project, as described in the indicative targets mandated by the Bank’s Eighth Replenishment (document AB-1704). This operation does not qualify as a poverty-targeted investment (PTI).

I. Risk

- 3.25 In the past, the most significant risk affecting the execution of phase I of the training and employment support program was associated with the capacity of the

STPS to conduct impact evaluations based on rigorous, reliable methodologies that use targets and indicators, and control or comparison groups. Owing to the founding of CONEVAL and support from the technical-cooperation operation, there will be mechanisms both within and outside the STPS to bolster its evaluation capacity, which suggests that problems are unlikely to occur.

- 3.26 A constant risk associated with labor market policies is that, in the final analysis, developments in the labor market may depend more on the macroeconomic environment than on the policies. There is a significant risk, therefore, that the structural reforms and investment program announced by the government may not produce the expected results, owing to the growth of the world economy or the behavior of the domestic economy, which would mean few high-quality jobs created. Phase II emphasizes the most effective types of training for the unemployed. Although an evaluation using comparison groups takes into consideration the behavior of the economic environment, there are training program evaluations that show that the net impact is not independent of the economic environment, and results are better when the labor market behaves favorably.

MULTIPHASE TRAINING AND EMPLOYMENT SUPPORT PROGRAM PHASE I

(ME-0233)

EXECUTIVE SUMMARY

Borrower and guarantor:	Nacional Financiera, S.N.C. (NAFIN), the Government of the United Mexican States.			
Executing agency:	Secretaría de Trabajo y Previsión Social (STPS) [Department of Labor and Social Insurance]			
		Phase I (three years)	Phase II (three years)	Phase III (three years)
Amount and source:	IDB (OC):	US\$300 million	US\$300 million	US\$300 million
	Local:	US\$300 million	US\$300 million	US\$300 million
	Total:	US\$600 million	US\$600 million	US\$600 million
Financial terms and conditions:	Amortization period:	25 years		
	Grace period:	3 years		
	Disbursement period:	3 years		
	Interest rate:	variable		
	Inspection and supervision:	1%		
	Credit fee:	0.75%		
	Currency:	U.S. dollar, Single Currency Facility		
Objectives:	The general objective of the multiphase training and employment support program is to promote worker development, employability, mobility, and productivity in order to make the workforce more competitive, and to develop capacity for planning, analysis and programming of sector labor market policies.			
Justification for a multiphase program	A nine-year program costing an estimated US\$1.8 billion is proposed, to be carried out in three three-year phases for which the Bank would fund US\$300 million every three years and the Mexican government would contribute a similar amount. This type of program, already tested satisfactorily in the two previous labor market operations financed by the Bank (loans 983/OC-ME and 1256/OC-ME), is the most appropriate mechanism for labor market programs. It would permit the Bank to make an incremental investment at the same time as it closely and continuously monitors the program on the central and state levels, in order to optimize the expected outcomes and respond			

efficiently, flexibly and practically to the demands of a dynamic labor market. Unlike other social projects intended to solve a specific problem, this program is intended to establish an evolving investment system to respond to continuous changes in a globalized market. Given that goal, the multiphase approach has significant advantages since it: (i) permits actions to continue without interruptions that could affect private sector participation; (ii) gives the private sector confidence in the continuity of public sector investments, thereby ensuring that entrepreneurs will make complementary investments; and (iii) provides the flexibility to adjust the program continuously to new economic demands.

Description:

The specific objectives, reflected sequentially in the components described below, are: (i) to step up worker-related activities for the underemployed and unemployed; (ii) raise active worker productivity as a means of increasing employee competitiveness; and (iii) to improve the evaluation of labor market and institutional development policies.

Component 1. Employment support program (US\$239 million in phase I). The objective is to reduce contracting costs for employers and the cost of finding work for job seekers and increase the placement rate for unemployed workers who have received training.

The efficiency of placement services will be enhanced and their benefits will be extended to more workers. The annual goals for assistance will rise from 630,000 to about 1.2 million unemployed and underemployed workers, which will permit the program to assist up to 7.5 million job seekers over nine years. Activities are included to improve and expand the coverage of the Servicio Nacional de Empleo (SNE) [National Employment Service] and to provide better linkage between the unemployed and job offers and/or training.

Component 2. Training support program (US\$56 million in phase I). The objective is to boost the productivity and competitiveness of microenterprises, small and medium-sized companies, and their workers. The technical and financial resources contributed by the program to train workers in companies will be upped by 100 percent. The additional investment will assist about 100,000 companies a year, as compared with 50,000 at present, and train about 350,000 of their workers. New distance training activities will be introduced (virtual training) among other activities, which will indirectly influence about 200,000 more companies. The multiplier effects will be enhanced through social marketing programs and

studies and demonstrations of best training practices. Greater responsibility for operating the program will be delegated to the states, expanding geographic coverage and targeting companies will broaden its scope at the local level.

Component 3. Policy evaluation and institutional development (US\$6 million in phase I). The objective is to support the STPS in boosting its strategic planning and operating capacity and the sector's capacity to design, analyze and apply labor market policies. Financing will be provided for the following activities: (i) technical advisory assistance for improving evaluation methodologies, monitoring, and operating information of employment and training programs; (ii) labor market studies and surveys; and (iii) standardization of labor market information and publications. Support will be provided for the institutional development of the STPS, with financing for specialized training for staff, strengthening in safety and health, labor arbitration and jurisdiction. Funding will also be provided for information systems in order to strengthen the STSP's accounting and administrative systems.

The Bank's country and sector strategy:

The government's strategy is to: (i) expand training and employment programs for the underemployed and unemployed; (ii) provide incentives for companies to invest more in on-the-job training; (iii) reduce the cost of workforce mobility and facilitate its adaptation to the labor market; (iv) expand programs to promote the competitiveness of more companies and their workers; and (v) promote cooperation between employers and employees on occupational health and productivity.

The Bank's strategy is to facilitate the economic and social transition and to boost the competitiveness of Mexican workers. It will support the STPS in its efforts to provide more training for workers and the unemployed and facilitate workforce mobility and policy analysis. The proposed program includes focused activities and incentives to ensure that the project benefits more women and high-risk groups.

The proposed program is consistent with the **2001-2006 National Development Plan** and the new labor culture, which focuses on: (i) expanding and improving programs for the unemployed and underemployed; (ii) creating a climate conducive to competitiveness; (iii) promoting job creation and self-employment to include the most underprivileged groups in the workforce, such as the disabled, older adults and indigenous peoples; and (iv) promote transparency in interactions between employers, employees and the government.

Environmental and social review:

Environmental aspects. Most of the program activities focus on training, studies, surveys and institutional strengthening and are not expected to have direct negative environmental impacts. Furthermore, training in productive processes will take the environmental aspects of specific technologies into account, seeking to reduce any adverse impacts and promote positive impacts through technologies that can be applied by workers. Activities related to occupational safety, health and hygiene will be continuously monitored to verify compliance with Bank guidelines and Compulsory Mexican Standards.

Social aspects. Support for training and employment programs for the unemployed, including vulnerable groups (women, the disabled, older adults, abused, illiterate and indigenous peoples, youths at risk and rural craftspeople in poor areas) has a positive impact on society in general, since it supports their incorporation into or return to productive activities. The program will monitor its impact on beneficiaries as a whole and on each of the vulnerable groups mentioned above. A baseline will be established with the STPS for each group and appropriate evaluation methods and specific indicators will be developed to measure the results, in order to adjust program activities in function of the lessons learned.

Benefits:

General. The actions included in the proposed program will help boost the effectiveness of the government's labor policy. This will be achieved through effective integration of public and private actions in the design and delivery of job placement and training services. Another major benefit relates to training for workers employed by microenterprises and small and medium-sized companies and the improvement in their general productivity.

Impact on women. The program's benefits will extend to women as workers and entrepreneurs (particularly in microenterprises). The more prominent position that women will acquire through social communications will attract enterprises belonging to women and inform companies that mainly employ women about the benefits of the program. The studies, research and surveys included in the new operation will lead to better analysis and evaluation of gender problems in areas that are crucial for women's participation in the workforce. Indicators and specific targets will be included on the number or percentage of women who benefit from the program's components.

Impact on vulnerable groups. Another significant benefit will be the active inclusion in STPS programs of vulnerable or high-risk groups. Under component 1, in particular, the STPS will launch special activities (described in Chapter II) to attend to the specific needs of

women, the disabled, older, abused, indigenous and illiterate people, youths at risk and rural craftspeople in poor areas. The STPS has indicated that it will establish transition centers for groups with difficulties in finding work and will seek partnerships with civil society organizations to provide comprehensive services involving job guidance, training, and specialized support for these vulnerable groups.

Risks:

Decentralized execution of an operation that delivers services through two programs: (i) an employment support program (PAE), through the National Employment Service (SNE) with 139 state offices and (ii) a training support program (PAC) with 72 local training promotion organizations (TPOs) and 32 officers in charge presents challenges for the STPS in terms of supervision and monitoring. To mitigate this risk, independent audits will be scheduled in the states at least once every two years. The statements for which reservations have been expressed will be automatically audited the following year and disbursements will be contingent on taking corrective measures within the periods established by the borrower, executing agency and the Bank.

As to component 2 (training support program), the STPS' decision to transfer to state officials authorization for training plans and payments, tasks that are currently centralized, could pose a risk to the running of the operation. To mitigate this risk, it has been agreed that the STPS will transfer responsibilities to the states in stages, initially only to those with funds available to contract personnel and with the basic instruments to administer the program on the state level. Technical advice and training will be provided for state and TPO officials in their new functions and responsibilities. A master register of training suppliers will be established that can be consulted by all interested parties—the central and state governments, TPOs and entrepreneurs requiring services. An internal accounting and financial control system will be implemented for use by the central executing agency and in the state offices in charge of authorizations and payments. As described in Chapter III on program execution, the state governments will absorb the operating costs (payroll for administrative staff and promoters, communications, etc.). To mitigate the risk, it has been agreed with the STPS to transfer responsibility to the states in stages, initially only those that have the necessary resources to hire personnel and the basic tools for administering the program at the state level.

Special contractual clauses:

Program eligibility will be contingent on approval by the Bank of the following conditions precedent to the first disbursement:

1. Evidence that the borrower has entered into with the United Mexican States one or more agreements that should contain at

least (i) the terms and conditions on which the borrower may transfer to the guarantor the loan proceeds; and (ii) an obligation on the part of the executing agency to carry out the activities planned for the program (paragraph 3.1).

2. Evidence that STPS has (a) reached agreement with the Bank on an Action Plan establishing, *inter alia* (i) the steps that must be taken to ensure the implementation of proper internal control system based on the recommendations contained in the special audit report commissioned by the STPS; and (ii) the schedule agreed on with the Bank for implementing the activities described in the Action Plan as needed immediately to initiate the program activities (paragraph 3.17); and (b) completed the actions described in the Action Plan as needed immediately to initiate the program activities.

Special conditions precedent to disbursements for components 1 and 2

1. The borrower or the executing agency shall demonstrate, to the Bank's satisfaction, that the Operating Regulations and the Procedures Manual for component 1 have entered into effect as agreed with the Bank (paragraph 3.4).
2. The borrower or the executing agency shall demonstrate, to the Bank's satisfaction, that the Operating Regulations and the Procedures Manual for component 2 which is to include the model of the agreement between the STPC and the states, have entered into force as agreed with the Bank (paragraphs 3.5 and 3.6).

Other special conditions:

1. If as a result of the semiannual operating audits and annual financial audits or annual meetings, it is found that adjustments need to be made to the program, the executing agency will take such steps as are necessary to make and introduce such adjustments in a timely manner.

Poverty-targeting and social sector classification:

This operation qualifies as a social equity-enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). This operation does not qualify as a poverty-targeted investment (PTI) (see paragraph 4.12).

Exceptions to Bank policy:

See "Procurement of goods and consulting services".

Procurement:

Procurement of goods and services will be governed by the Bank's policies and procedures.

International competitive bidding will be required for procurement valued at, or above, the equivalent of US\$350,000 in the case of goods and of US\$200,000 in the case of consulting services. Local law will apply to bidding on contracts valued at amounts below these thresholds insofar as the provisions of such law do not conflict with the principles of the Bank's procurement procedures.

As an exception to the requirement for international competitive bidding, it is recommended that direct contracting be employed in the case of the following institutions and companies: (i) Instituto de Estadística, Geográfica, e Información (INEGI) for demographic surveys and surveys of the labor situation to a maximum of US\$6 million; (ii) AVANTEL, a telecommunications company, for continued dial 800 telephone service under the "Chambatel" program to a maximum of US\$3 million.

In addition, it is recommended that direct contracting be used for the following publicity services: television, to a maximum of US\$2.8 million; radio, to a maximum of US\$1.2 million; and the press and printed material, to a maximum of US\$1.5 million. The use of these firms is justified on the basis of their technical and institutional strengths (policy GS-403 relating to selection without the need for competition) to ensure optimum execution and development of the services proposed for each of the program components.

TRAINING AND EMPLOYMENT SUPPORT PROGRAM, PHASE II (ME-L1004)
LOGICAL FRAMEWORK

Narrative Summary	Indicators	Means of Verification	Assumptions
Goal			
To help promote central government policies and create conditions in the labor market that will spur the creation of high-quality jobs in the formal sector (National Development Plan).	Increase in the proportion of high-quality jobs in the labor market.	National accounts system. National and sector employment surveys. Social Security administrative records.	Macroeconomic conditions remain stable.
Purpose			
The phase II objective is to improve linkages between job seekers and high-quality jobs in a context of gender equality.	Percentage of the potential population that has access to better information on job opportunities.	Job Portal. National and sector employment surveys. National accounts system. Employment support program information system (SISPAE).	Infrastructure investment growth rates remain positive. The financial cost of credit falls. The business climate improves. The workplace environment becomes more accommodating.
Components			
Component 1. Employment support program Employers and job seekers better matched to fill high-quality jobs ¹ .	Impact 1. Spread in the rate of placement in high-quality formal jobs for job seekers assisted by the employment support program compared to rates for job seekers in control groups, in the job counseling, training grants (combined large companies and combined MSMEs), and formal employment modalities.	An impact evaluation (experimental or quasi-experimental) that shows the significant differences in the rate and time of placement in high-quality jobs, for the groups assisted through the job counseling, training grants (combined large companies and combined MSMEs) and formal employment modalities, compared to the control groups.	The climate of cooperation between the productive, social and government sectors improves.

¹ The definition of high-quality job agreed on by the STPS and the IDB will be applied and measured during phase II.

Narrative Summary	Indicators	Means of Verification	Assumptions
	<p>Target: The spread in the placement rate in high-quality formal jobs between beneficiaries and the control group is expected to be 10 to 15 percentage points.</p> <p>Baseline: In the phase I evaluations of the training and employment support program: in job counseling the spread in the placement rate in high-quality formal jobs was higher than 10%; in training grants, the spread was about 10 percentage points; and in the formal employment program, the spread was 15 percentage points.</p>	<p>The impact will be measured 3, 6, and 12 months after the end of the intervention for the job seekers and the cost/benefit of the intervention will be measured. Only one impact evaluation will be performed in phase II, in the job counseling, training grants (combined large companies and combined MSMEs), and formal employment modalities, with findings available in the third year of phase II.</p>	
	<p>Effectiveness</p> <p>2. Rate of placement of the main modalities offered under the employment support program.</p> <p>Job Portal: Baseline 8.5%, target 11%.</p> <p>SNE by telephone: Baseline 7%, target 10%.</p> <p>Job counseling (job bank): Baseline 30%, target 35%.</p> <p>Combined training (overall average): Baseline 65%, target 70%.</p> <p>Formal employment: Baseline 52%, target 58%.</p>	<p>Job Portal.</p> <p>SNE information system.</p> <p>SISPAE.</p> <p>Job Placement and Tenure Survey. (Annual verification).</p>	
	<p>3. Percentage of vacancies filled, compared to registered vacancies.</p> <p>Target: 60% of registered vacancies are filled.</p> <p>Baseline: 50% of registered vacancies are filled.</p>	<p>Job Portal.</p> <p>SNE information system.</p> <p>SISPAE.</p> <p>Job Placement and Tenure Survey. (Annual verification).</p>	

Narrative Summary	Indicators	Means of Verification	Assumptions
	<p>4. Total cost per program modality compared to the number of persons assisted in each modality and the number of job placements in the job counseling, BÉCATE, and formal employment modalities.</p>	<p>Job Portal. SNE information system. SISPAE. Job Placement and Tenure Survey. Administrative records of the Employment Coordination Office. (Annual verification starting in 2010).</p>	
<p>Component 2. Surveys, monitoring and evaluation. Systems for monitoring and evaluation and for employment surveys established, in operation, and disseminated.</p>	<p>Monitoring and evaluation system in operation. Employment survey system in operation. Evaluation studies completed.</p>	<p>Administrative systems and records. National and sector employment surveys.</p>	

Triggers for Phase III
a) 50% of phase II disbursed.
b) 75% of phase II committed.
c) 60% of the BÉCATE target met (165,000 grants).
d) Sufficient progress in design and implementation of the monitoring and evaluation system.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION __/__

Mexico. Loan ____/OC-ME to the United Mexican States
Training and Employment Support 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 the United Mexican States, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the training and employment support program, phase II. Such financing will be for the amount of up to US\$100,000,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Executive Summary of the Loan Proposal.

(Adopted on __ _____ 2007)

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