

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

MEXICO

PROGRAM TO IMPROVE THE QUALITY OF EMPLOYMENT IN MEXICO

(ME-L1289)

LOAN PROPOSAL

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ABBREVIATIONS

AFORE	Administradora de Fondos para el Retiro [Retirement fund manager]
CBA	Collective bargaining agreement
CONEVAL	Consejo Nacional de Evaluación de la Política de Desarrollo Social [National Council for the Evaluation of Social Development Policy]
DEM	Development Effectiveness Matrix
DOF	Diario Oficial de la Federación [Federal Official Gazette]
ECG	Evaluation Cooperation Group
ENOE	Encuesta Nacional de Ocupación y Empleo [National Occupation and Employment Survey]
FCLCR	Centro Federal de Conciliación y Registro Laboral [Federal Center for Labor Conciliation and Registration]
GDP	Gross domestic product
ILO	International Labour Organization
IMCO	Instituto Mexicano para la Competitividad [Mexican Competitiveness Institute]
IMF	International Monetary Fund
IMSS	Mexican Social Security Institute
INEGI	National Statistics and Geography Institute
ITAM	Instituto Tecnológico Autónomo de México [Mexico Autonomous Institute of Technology]
OECD	Organisation for Economic Co-operation and Development
OVE	<i>Office of Evaluation and Oversight</i>
PBP	Programmatic policy-based loan
SHCP	Department of Finance
STPS	Department of Labor and Social Welfare
UNDP	United Nations Development Programme
USMCA	United States-Mexico-Canada Agreement

PROJECT SUMMARY

MEXICO PROGRAM TO IMPROVE THE QUALITY OF EMPLOYMENT IN MEXICO (ME-L1289)

Financial Terms and Conditions				
Borrower			Flexible Financing Facility ^(a)	
United Mexican States			Amortization period:	15 years
Executing agency			Disbursement period:	12 months
Department of Labor and Social Welfare (STPS) and Department of Finance (SHCP)			Grace period:	5.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital):	800,000,000	100	Credit fee:	(c)
			Inspection and supervision fee:	(c)
Total:	800,000,000	100	Weighted average life:	10.25 years
			Currency of approval:	United States dollars
Project at a Glance				
<p>Project objective/description: The development objective of this programmatic series is to lay the groundwork for improving the quality of employment in Mexico through better worker representation; lower labor dispute resolution costs; and higher social security coverage rates at lower costs. The objective of this first operation is to improve job quality by supporting the design of regulatory labor reforms aimed at: (i) improving the defense of labor rights; (ii) improving labor justice; and (iii) improving the functioning of social security.</p> <p>This operation is the first of a programmatic policy-based loan (PBP) series consisting of two contractually separate but technically linked loans.</p>				
<p>Special contractual conditions precedent to the first and only disbursement: The single disbursement will be contingent upon: (i) the signing of a mandate agreement between the borrower and its financial agent; and (ii) fulfillment of the policy reform conditions as established in the Policy Matrix (Annex II) and policy letter, as well as fulfillment of the other conditions set out in the loan contract (paragraph 3.2).</p>				
<p>Exceptions to Bank policies: None.</p>				
Strategic Alignment				
Challenges: ^(d)	SI	<input checked="" type="checkbox"/>	PI	<input checked="" type="checkbox"/>
Crosscutting themes: ^(e)	GD	<input checked="" type="checkbox"/>	CC	<input type="checkbox"/>
			IC	<input checked="" type="checkbox"/>

^(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take 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 the 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 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. Macroeconomic, fiscal, and social situation

- 1.1 Mexico is the world's eleventh-largest economy (US\$1.27 trillion), with gross domestic product (GDP) per capita estimated at US\$10,118 (15% of the United States equivalent).¹ The economy has become oriented toward manufacturing since trade integration with the United States and Canada went into effect. Mexico is the United States' second-largest export market and third-largest source of imports.
- 1.2 Mexico's economic growth has slowed in recent years, coinciding with a fiscal adjustment initiated in 2016 and with a series of external and internal shocks.² In 2018, the GDP growth rate was 2%. In 2019 it was -0.1%, a figure not witnessed since the 2009 global crisis,³ while in 2020, prior to the COVID-19 crisis, it was projected to reach 1%. Tensions between Mexico and the United States rose in May 2019, when the United States proposed imposing tariffs of up to 25% on all Mexican imports, a move that was subsequently avoided following measures in the migration arena. The new government administration has resolved to restrict private-sector participation in energy policy and increase public investment in Petróleos Mexicanos (Pemex).
- 1.3 The year 2020 began with news that raised growth expectations, including the presentation of an infrastructure agreement for US\$43 billion (3.5% of GDP) with broad private-sector support and parliamentary ratification of the United States-Mexico-Canada Agreement (USMCA), spurred by the trade disputes between China and the United States. However, the new economic reality created by COVID-19 has reshaped those expectations. While the effects of the global crisis have not yet been factored into the economic projections for Mexico, it is very likely that the country's economy will contract significantly in 2020.
- 1.4 The Government of Mexico has yet to make any official statements on the expected economic growth for 2020. It has made general policy announcements, including plans to stimulate consumer activity through transfers to individuals and loans for the productive sector, but without providing a detailed implementation schedule. On the fiscal front, since 2016 the Government of Mexico has been implementing fiscal consolidation measures to reduce the public deficit and contain the federal debt. The incoming administration pledged to maintain fiscal discipline, attain a primary surplus of 1% of GDP in 2019 and of 0.7% of GDP in 2020, and keep the debt close to 45% of GDP over its six-year term of office. This consolidation of public accounts provides the fiscal headroom required to implement measures to mitigate the crisis. Fiscal soundness could run up against liquidity constraints (the government will have to look for sources of financing to increase spending without incurring a high financial cost). At the same time, Mexico has a flexible line from the International Monetary Fund to address balance of payment constraints. With regard to social indicators, Mexico has made little progress over the past decade. The number of people living

¹ [IMF 2019](#).

² Uncertainty within the regional trade bloc, challenges of the global economy, election cycle, and uncertainty as to the direction of certain public policies.

³ Annual drop of 5.3%.

in poverty went from 49.5 million in 2008 to 52.4 million in 2018, although the poverty rate went from 44.4% to 41.9%, strides having been made in reducing social deprivation.⁴ At the subnational level, socioeconomic differences have deepened. In the southern and central states, respectively, 55% and 45% of the population lives in poverty, compared to 25% in the country's north.⁵

2. Problems in the Mexican labor market

- 1.5 **Most jobs in the Mexican labor market are of low quality,⁶ making it difficult to reduce labor inequality.** On the Bank's 2018 Better Jobs Index, Mexico is ranked 13th out of 17 countries in Latin America⁷ despite being the fourth-richest country in the region in terms of GDP per capita⁸ and the fifth in terms of labor productivity.⁹ Mexico is in 10th place in formality (access to social security) and in 14th place in living wage. Workers' share of total income is very low in comparison with other countries. According to an International Labour Organization (ILO) analysis of 17 Latin American countries, Mexico is next to last in employment income as a percentage of GDP.¹⁰ In fact, close to 40% of the country's population has lower employment income than the cost of the food basket.¹¹ The evidence shows that this is due to multiple factors,¹² three of which are directly related to the functioning of the labor market. This includes an imperfect defense of collective labor rights, costly resolution of individual labor disputes, and inadequate functioning of social security. In addition, certain practices discourage participation by various segments of the population—particularly women—and create friction in the labor market, further entrenching labor inequality.¹³

⁴ CONEVAL (2019).

⁵ The effects of the COVID-19 pandemic on the labor market will be significant, and they are likely to be reflected in increased levels of poverty.

⁶ A low-quality job is a job paying a low salary (not sufficient to overcome poverty) and failing to provide social security contributions (formality) and other benefits ([Better Jobs](#)).

⁷ [Better Jobs](#).

⁸ [IMF 2019](#).

⁹ [ILO 2017](#).

¹⁰ [ILO 2017 data](#).

¹¹ [CONEVAL, Índice Tendencia Laboral de Pobreza \[Labor Poverty Trend Index\]](#).

¹² Other significant factors are labor regulations and social security; the functioning of credit markets; distortions in markets for internationally nontraded goods; and infrastructure quality. See Arias et al. (2010), Hanson (2010), Chiquiar and Ramos Francia (2009), IDB (2017), Levy (2007), and Levy (2019).

¹³ Several problems affecting the functioning of the labor market will not be addressed in this operation. For example, the country's productivity would improve with more dynamic investment (IDB Group Country Strategy with Mexico, document GN-2982). Challenges in the education system affect access to quality jobs for many people. This document will emphasize the labor market problems addressed through this operation.

- 1.6 **Labor market indicators in Mexico have not shown sufficient progress.** The percentage of workers without social security fell to 62.4% in the fourth quarter of 2019.¹⁴ This figure is only 2.2% lower than in the fourth quarter of 2005 and continues to be substantially higher than in other Latin American countries with similar levels of GDP per capita. Average employment income fell by 10.4% between the fourth quarter of 2005 and the fourth quarter of 2019,¹⁵ despite labor productivity increasing by 1.8% over the period.¹⁶ Therefore, mechanisms need to be found so that future increases in productivity stemming from greater public investment, better education quality, and greater coverage of job training and placement programs are reflected in higher employment quality. This includes giving workers a greater voice and enhancing their bargaining power.
- 1.7 **The defense of collective labor rights needs to improve.** Mexico is the Latin American country with the second least effective defense of labor rights.¹⁷ Collective worker representation has significant shortcomings, and unions are not always effective instruments for improving the employment conditions of their members. Seventy-six percent of collective bargaining agreements (CBAs) fail to improve workers' situation with respect to minimum legal requirements.¹⁸ Workers are not always aware of the content of their own CBAs due to an absence of effective labor union election processes for approving these agreements or for electing union leaders.¹⁹ In addition, oversight of collective labor rights in Mexico was entrusted to the executive branch rather than to the judiciary. This arrangement had the potential for creating political pressures to the detriment of workers in the salary review processes, which were often conducted without addressing workers' demands.²⁰
- 1.8 **The adjudication of labor disputes is protracted, raising labor costs.** Both conciliation processes and labor lawsuits have significant shortcomings, substantially reducing the incentives for companies to hire new workers. In the case of conciliation, Sadka et al. (2018) show that the percentage of labor disputes resolved through this procedure is low in comparison to international standards (60% in Mexico vs. 80%-90% in other countries). This conciliation deficit leads workers and companies to start long and more costly legal proceedings rather than arrive at an almost immediate settlement of the disputes. The average length of an individual labor lawsuit in Mexico is over three years.²¹

¹⁴ National Occupation and Employment Survey (ENOE) calculations.

¹⁵ National Council for the Evaluation of Social Development Policy (CONEVAL).

¹⁶ Labor productivity based on hours worked. National Statistics and Geography Institute (INEGI).

¹⁷ [World Economic Forum](#).

¹⁸ [Labor Reform](#).

¹⁹ Ibid.

²⁰ Both labor unions and companies could put pressure on the executive branch in an attempt to influence the resolution of disputes.

²¹ Sadka et al. (2018).

- 1.9 The low rate of conciliation and the protracted length of labor lawsuits make the defense of labor rights less effective, reducing the quality of employment. In addition, these problems could discourage the creation of formal jobs since informal jobs are not exposed to these costs.²² The reasons for the problems with labor lawsuits include delays in initial notifications of labor proceedings (64% of notifications are served too late to allow compliance with the lawfully provided timeframes for the initial conciliation hearing); procedural inefficiencies in the proceedings themselves (which are essentially based on written communications); and limitations in the mechanisms for enforcing rulings. Furthermore, there are unlawful practices such as falsifying evidence or witness statements, attempts to prevent notification in an effort to delay the proceedings, offers of bribes, and attempts to prevent the enforcement of rulings, all of which artificially extend the proceedings.²³ Because of these flaws, labor lawsuits are not a means of quickly administering justice, which works to the detriment of workers. According to Kaplan and Sadka (2011), 56% of rulings in favor of workers are not enforced.
- 1.10 **The functioning of social security has room for improvement in various areas.** Timely collection of social security contributions is essential for funding the services provided for workers. When collection is deficient, services are low-quality and both companies and workers avoid paying their contributions, which in turn inhibits the creation of good-quality jobs.²⁴ In Mexico, oversight of social security contributions is separate from tax payment, making it difficult to identify the companies that fail to comply with their payment obligations.²⁵ There are mechanisms that are not explicitly prohibited by legislation and entail the evasion of labor and/or social security obligations or the enrollment of a worker with wages lower than those he or she actually earns. Of those employed at formal companies, 28.9% have no social security.²⁶ In addition, many declare different salaries for social security and for tax purposes.²⁷ Even in the case of timely payment of social security contributions, workers receive low benefits, particularly pensions. Retirement funds are managed by specialized companies, which charge the highest fees in the region.^{28,29}
- 1.11 **Each of these problems entails practices that hold back improvements in job quality, particularly for women.** First, women's participation in union leadership is limited. Only 8.7% of union leaders in Mexico are women.³⁰ The lack of representation of women among union directors adversely affects union policies on gender equity. There is evidence that having women in executive positions at an

²² Levy (2019).

²³ Kaplan and Sadka (2014).

²⁴ Levy (2007) and Levy (2019).

²⁵ Ibid.

²⁶ ENOE calculations for the fourth quarter of 2019.

²⁷ In 2012, this difference was 7.5%. See [Gaceta](#) [Gazette].

²⁸ In the last five years, the implicit annual fee on fund balances under management has averaged 103 basis points. Despite its reduction over time (it was 800 basis points in 1998), it continues to be high by international standards. For Latin America, the implicit annual fee is 91 basis points (AIOS, 2018) Azuara et al. (2019).

²⁹ Other social security problems are not addressed in this operation. The system is fragmented, and the quality of services has declined, while noncontributory programs offer cost-free alternatives that increasingly encourage informality (Levy, 2018).

³⁰ STPS calculations.

organization has the effect of increasing gender equity at all job levels within that organization. Chattopadhyay and Duflo (2004) and Beaman et al. (2009) find positive impacts on gender equity as a result of gender quotas in municipal councils in India. Second, employment termination because of pregnancy is an issue. According to the Encuesta Nacional sobre la Dinámica de las Relaciones en los Hogares 2016 [2016 Survey on the Dynamics of Household Relations], 1.2% of women report having been dismissed for being pregnant (Kaplan and Piras, 2019). In addition to violating the individual workers' labor rights, these dismissals entail the loss of medical care, including prenatal care coverage. Lastly, the legislation does not promote social security coverage for special groups, including household workers, most of whom are women. Becoming insured through the social security system is voluntary and 97% of household workers lack coverage. In addition, the law does not grant this group a number of rights that other employees receive, for example, the right to a written contract.³¹ Only 1.4% of this group has a contract.

3. Policy alternatives and the labor reform³²

- 1.12 **Labor union democracy and greater oversight of collective bargaining can contribute to improving job quality.** International evidence shows that if union members have more information on their CBAs and the decisions of their union leadership, the unions are more likely to improve employment conditions—particularly salaries—for their workers.³³ Labor unions can be made more democratic by strengthening their transparency processes to ensure that workers are aware of the content of their CBAs and by implementing personal, secret, direct, and free voting for CBAs and for union leaders (Alcalde, 2007).³⁴ In addition, greater oversight of collective bargaining can be achieved by placing collective labor dispute resolution within the purview of the judiciary, thereby relieving political pressure on the executive branch (Reynoso, 2012).³⁵ Increased women's participation in the leadership ranks of labor unions is also desirable and can be achieved by establishing quotas for female participation.³⁶
- 1.13 **The cost of resolving labor disputes can be reduced through better administration of labor justice.** This would require: (i) optimizing the mandatory pretrial conciliation mechanisms through legal advice and the worker's presence at the hearing (Sadka et al., 2018); (ii) improving the notification procedure, including by randomly assigning files to notifiers and using electronic systems (Sadka, 2015); (iii) introducing streamlined processes in the judicial branch to adjudicate disputes using primarily oral mechanisms (IMCO, 2014);³⁷ (iv) developing mechanisms for

³¹ See [Trabajo doméstico](#) [Household work].

³² These alternatives were prepared before the onset of the COVID-19 pandemic. The reforms will have long-term effects on the functioning of the Mexican labor market, which are expected to become apparent after the current health situation is overcome.

³³ See Benassi, C. (2011); Berry, C. and S. McDaniel (2018); Blanchard, O., F. Jaumotte, and P. Loungani (2014); Boeri, T. (2014); Bryson, A. and J. Forth (2010); Felstead, A., D. Gallie, and G. Francis (eds.) (2015); Hayter, S. and J. Visser (2018); Kenworthy, L. (2001); Martins, P. (2014); Nickell, S. and R. Layard (1999).

³⁴ [Contratación Colectiva](#) [Collective bargaining agreements].

³⁵ [Alegatos](#) [Arguments].

³⁶ [Legislación/1624](#) [Legislation/1624].

³⁷ [Justicia Laboral](#) [Labor justice].

enforcing rulings, requiring companies to pay the amounts determined (ITAM, 2019); and (v) providing penalties for prohibited practices during lawsuits (IMCO, 2014).

- 1.14 **Improved functioning of social security can contribute to improving job quality.** International evidence shows that improved oversight of social security reduces informality, even within formal companies.³⁸ Effective oversight requires that the law clearly prohibit the failure to register with social security. In addition, Mexico could achieve more effective oversight by: (i) improving the (electronic and statistical) processes for identifying workers not enrolled in, and salaries underreported to, social security; and (ii) introducing new technologies to combat these practices. In addition, the retirement outlook for insured workers can be improved by reducing the administrative cost of pensions. The evidence shows the need to adjust the pension systems managed by private companies to achieve higher accumulation rates and better retirement benefits.³⁹ For Mexico, one option is to lower the fees charged by the retirement fund managers (AFOREs).⁴⁰
- 1.15 **It is feasible to take steps to incentivize women's labor participation and foster gender equity.** Women's representation in labor unions can be improved by promoting rules aimed at achieving gender parity among union members, as is the case in other countries.⁴¹ Similarly, the countries that have substantially improved social security enrollment rates in unorganized groups, such as household workers, have changed the legislation to make such enrollment mandatory.⁴² Lastly, it is essential to protect the labor rights of pregnant women in terms of medical benefits. The ILO has provided multiple recommendations in this regard.⁴³
- 1.16 **In 2017, Mexico carried out a constitutional reform that created a general framework for establishing a new labor justice system that addresses the above-described issues.** This reform includes components that improve labor representation and radically change the labor justice model.⁴⁴ Labor unions will be required to show that they represent workers through personal, free, and secret voting. This is intended to eliminate the so-called "employer-protection unions," which do not represent workers.⁴⁵ It also provides that labor disputes currently being adjudicated by conciliation and arbitration boards, which operate under the executive branch, are to be transferred to labor courts, which are part of the judicial branch. This change improves the process and quality of administration of justice. In addition, the reform creates a mandatory conciliation stage at the administrative level as a condition precedent to initiating a labor lawsuit, with a view to prioritizing conciliation within the dispute resolution process. The second transitional article of

³⁸ Bruhn and McKenzie (2013), Andrade et al. (2013), and Wan (2010).

³⁹ Arenas de Mesa, A., et. al. (2008); Barr, N. and P. Diamond (2009); Baumol, W. and R. Willig (1981); Benartzi, S. and R.H. Thaler (2007); Bikker, J., O. Steenbeek, and F. Torracchi (2010); Castaneda, P. and H. Rudolph (2011); Dobronogov, A. and M. Murthi (2005); Gill, I., T. Packard, and J. Yermo (2005); Greenwood, J., J. Sanchez, and C. Wang (2010); Modigliani, F. and A. Muralidhar (2005); and Robles, E. (2012).

⁴⁰ Azuara et al. (2019); De la Torre, A. and H. Rudolph (2012); and OECD (2018).

⁴¹ Ferree (2008).

⁴² Bosch et al. (2013).

⁴³ [Protección Maternidad](#) [Maternity protection].

⁴⁴ [Decreto 24/02/2017](#) [Decree 24/02/2017].

⁴⁵ This refers to CBAs signed by the employer and a union behind the back of workers to achieve discretionary management of labor relations. [Bensusan](#) (1997).

this constitutional reform requires Congress to make the relevant legislative adjustments to implement the provisions of the labor reform decree.

- 1.17 **The Mexican Congress approved the package of reforms to comply with the constitutional changes. The reform package was enacted by the federal government on 1 May 2019.** This package introduces substantial changes to the Federal Labor Law, including rules for a new labor union model based on transparency and democracy. It requires that CBAs and union leaders have the support of a majority of workers. In addition, it establishes gender parity as a consideration to be included in worker representation. The new labor union model also seeks to isolate collective negotiations from political pressure by transferring the dispute resolution process from conciliation and arbitration boards operating under the executive branch to labor courts under the judicial branch. To promote transparency, the reform requires that all CBAs be deposited at the new Federal Center for Labor Conciliation and Registration (FCLCR). Furthermore, the reform introduces a new model providing for the adjudication of individual labor disputes in labor courts through predominantly oral proceedings, with clear punishments for acts of corruption and strengthened mechanisms to ensure that rulings are enforced. In addition, the reform introduces a mandatory conciliation process at the FCLCR before a labor lawsuit can be initiated. This approach, which considers the scientific evidence on labor conciliation in Mexico, requires the presence of the worker at the conciliation hearings and is based on statistical information on the likely outcomes of a labor lawsuit if conciliation is not achieved. Subsequently, the legislature added a reform of the Federal Labor Law designed to incorporate household workers into the mandatory system of the Mexican Social Security Institute (IMSS) and to grant them other labor rights similar to those of other wage-earning workers, such as the right to a contract. These components of the reform package are expected to help improve workers' salaries and increase their formality.
- 1.18 The labor reform also requires state governments to adapt their labor legislation to the new system, since local courts have jurisdiction over many labor lawsuits. The employer's sector determines whether a labor lawsuit is to be tried at the local or federal level.⁴⁶ The local governments have to create their own labor courts and conciliation centers.

4. The labor reform and the United States-Mexico-Canada Agreement (USMCA)

- 1.19 **Legal changes to the Mexican labor framework were included as part of the USMCA.** Labor conditions in Mexico have been the subject of negotiations with the country's main trading partners. Since the signing of the North American Free Trade Agreement (NAFTA) in 1993, the United States and Canada established the need to improve collective bargaining mechanisms,⁴⁷ although this never came about in practice. The labor framework reforms did not succeed in encouraging the widespread creation of quality jobs because many sectors failed to address the three

⁴⁶ See the Federal Labor Law for a list of industries under federal jurisdiction.

⁴⁷ [Labor Agreement](#).

factors listed above.⁴⁸ Because of this, when negotiating the new trade treaty (i.e., the USMCA), Mexico agreed to improve labor conditions for its workers, as provided in the labor reform.⁴⁹ Annex 23-A of the new treaty includes Mexico's proposed changes to its legal framework, such as personal, free, and secret voting for CBAs and for the election of union leaders, an independent entity to foster conciliation and be responsible for the registration of unions and CBAs, and the creation of specialized courts in the judiciary to adjudicate labor disputes. The protocol of amendment⁵⁰ to the treaty includes additional agreements to ensure compliance with labor rights.

5. Bank support for the reform dialogue

- 1.20 **The Bank has directly and actively taken part in analyzing and formulating labor reform proposals, and this role has been recognized by the country's authorities and main stakeholders.** In 2011, the Bank identified the inability to enforce rulings in favor of workers as a serious problem.⁵¹ The reform's efforts to place levies on bank accounts to enforce rulings are the result of a dialogue between the Bank and the Government of Mexico on the importance of this issue. In 2015, through technical cooperation operation ATN/OC-14000-ME, the Bank provided support in the form of two additional inputs. The first was a calculator to estimate the probabilities of various labor lawsuit outcomes. This input was a key to the success of the pilot to foster labor conciliation and was also influential in the drafting of the reform of the conciliation processes. The second input was an intervention to organize the activities of notifiers in a local conciliation and arbitration board (Sadka, 2015). This work identified the importance of randomly assigning files to notifiers, an initiative that has been included in the reform. The Bank also remained active in the public debate on this.⁵²
- 1.21 **The Bank has been an active and direct advocate for social security improvements.** Through technical cooperation operation ATN/OC-15428-ME, the Bank implemented a pilot to formalize small business employees who had no social security (Kettle et al., 2019). This pilot showed that information on employer noncompliance can be obtained by cross-referencing the social security and tax databases. In addition, the Bank recommended that household workers be compulsorily included in the social security system (Azuara et al., 2019). Lastly, the Bank documented the fact that the fees charged by AFOREs exceed the international standards, harming workers' savings (Azuara et al., 2019).

⁴⁸ The most significant reform was carried out in late 2012 and includes: (i) one-year ceiling on the back pay that may be added to a severance payment in a labor lawsuit; (ii) introduction of a one-month probationary period allowing for termination without severance payment; (iii) introduction of subcontracting requirements' and (iv) an increase in fines for violating the law. Better worker representation was not achieved. The reforms did not amend the rules or protocols for settling labor disputes, including conciliation prior to labor lawsuits. They also failed to include adjustments to social security to expand coverage to specific groups or to improve the outlook for retirement insurance (Kaplan and Silva Porto, 2019).

⁴⁹ [Trade Negotiations](#).

⁵⁰ [USMCA](#).

⁵¹ [Plaintiff's role](#).

⁵² [Reforma Justicia Laboral](#) [Labor justice reform].

- 1.22 **The Bank's analytical work and direct technical support facilitated the preparation of the labor reform.** In 2018, when this reform was being drafted, the Bank participated in a committee with employer litigants, worker litigants, state and federal labor authorities, members of the judiciaries, union officials, employer sector representatives, and academics to prepare the reform initiative and continued to assist the government of Mexico during the legislative process.⁵³ Following the publication of the labor reform, the Bank will continue to support the Government of Mexico in implementing it, through technical cooperation operation ATN/OC-17459-ME. This includes suggestions regarding: the protocol for validating existing CBAs;⁵⁴ operating guidelines for the coordination council for implementation of the labor justice system reform;⁵⁵ the initiative for the FCLCR's organic law;⁵⁶ and estimating the resources needed for the FCLCR to begin operating (key inputs for preparing the 2020 budget) and the time needed to complete the matters in process prior to the reform. The Bank will continue to support the implementation of the reform through the design, delivery, and certification of training courses for STPS and FCLCR officials, design and dissemination of informational materials on the new labor union democratic processes, the design of strategies and instruments for the observation of union elections, and development of computer platforms and work organization for conciliators and notifiers.
- 1.23 **The Bank will continue to provide technical support during the implementation of the labor reform.** Based on the Government of Mexico's diagnostic assessment and reform proposals and the Bank's cumulative experience in identifying the necessary improvements in labor regulations, this programmatic series will help to support the implementation of changes in the legal framework of the Mexican labor market and thereby enhance the market's equity and efficiency. The second operation is aimed at supporting this implementation. The Bank will also seek additional technical cooperation funds to support the Government of Mexico in addressing any new challenges that may arise during implementation.

6. Challenges in implementing the labor reform

- 1.24 The approval of the labor reform content creates a unique opportunity to transform the labor rights of Mexican workers and poses a formidable implementation challenge. Addressing this challenge will require moving forward on several fronts, including those listed below.
- a. **Regulatory.** The reform of the Federal Labor Law necessitates various regulatory changes, including legislative approval of the FCLCR's Organic Law and validation of the existing CBAs through workers' personal and confidential vote. This requires promulgating a protocol to enable this validation work. Enshrining the right to social security for household workers required reforming the Federal Labor Law, which also granted other labor rights, such as the right to a written contract. Additional legal changes remain pending to effectively enshrine this group's effective right to social security. With regard to the right to social security for wage-earning employees of formal businesses, the

⁵³ [RL](#) [Labor reform].

⁵⁴ [Protocolo 31/07/2019](#) [Protocol 31/07/2019].

⁵⁵ [Lineamientos 05/07/2019](#) [Guidelines 05/07/2019].

⁵⁶ [Gaceta](#) [Gazette].

Federal Labor Law had to be reformed to prohibit mechanisms entailing the evasion of labor and/or social security obligations or the enrollment of a worker with a salary less than what he or she actually earns.⁵⁷ Lastly, the measures to reduce the fees charged by AFOREs, while not forming part of the labor reform, are critical for accumulating more resources and funding a decent retirement income for workers. There are plans for an agreement to be signed by the regulatory authorities and the AFOREs with a view to reduce the administrative costs of the retirement funds to international standards.

- b. **Intergovernmental coordination.** This coordination, encompassing the social security institutes, banking and financial authorities, and other federal and state authorities, is essential for achieving an effective defense of labor rights. The reform requires social security institutions to make an online platform available to the courts allowing access to their databases. The reform also requires the labor courts to report rulings against employers to the IMSS in order to ensure that social security obligations are met. The reform requires the use of the Sistema de Atención a Requerimientos de Autoridad [system for processing authority requests] (SIARA), operated by the Comisión Nacional Bancaria y de Valores [National Banking and Securities Commission] (CNBV), to investigate bank accounts and the procedure for bank account levies and enforcement of rulings in labor lawsuits. Lastly, the reform apportions responsibilities between the executive and the judicial branches of government, making close coordination between them necessary. In addition, a labor matter can fall under the jurisdiction of the federal government or state governments (depending on the company's sector), requiring good coordination between governments at each level. To achieve successful intergovernmental coordination, the labor reform provided for creating a coordination council for implementation of the labor justice system reform and tasked this council with issuing resolutions, guidelines, standards, procedures, and other regulatory instruments, which will be binding for its members. It also created a liaison unit for labor justice reform to ensure proper coordination with state governments.
- c. **Information systems and online platforms.** In addition to the abovementioned systems, the creation of new institutions (labor courts and the FCLCR) requires creating new information systems. Consultants contracted by the Bank with the proceeds of technical cooperation operation ATN/OC-17459-ME are advising the authorities at the STPS on the characteristics of the online platform that will support the labor conciliation process at the FCLCR, including notifications, as well as the online platform for service, management, and monitoring of claims and complaints by workers or employers on the processes under the FCLCR's purview.

⁵⁷ A study was conducted analyzing these two practices, which will be used to design future public policies to combat them. See [SAT study](#).

- d. **Professionalizing the staff at the new institutions.** It is essential for the new institutions to have qualified staff to perform their duties under the labor reform. As part of the outputs of technical cooperation project ATN/OC-17459-ME, the Bank is supporting the Government of Mexico in the design and delivery of training courses for STPS and new FCLCR officials: (i) initial training in the labor justice system; (ii) training in senior public management; (iii) training for conciliators; (iv) training for verifiers, notifiers, and registry staff; and (v) initial training for offices of prosecutors for the defense of labor. These courses will be coordinated by a specialized academic committee and will have the appropriate accreditation or certification by recognized educational or academic institutions.
 - e. **Compliance with the labor union transparency and democracy measures.** The implementation of the new labor union model requires oversight of the union election processes by the STPS, and when applicable, by the FCLCR authorities. In collaboration with the United Nations Development Programme (UNDP) and using the proceeds of technical cooperation operation ATN/OC-17459-ME, the Bank is supporting the Government of Mexico in implementing the new model by reviewing the protocol for validating existing CBAs, as well as by: (i) mapping of processes, dissemination, and training; (ii) creating capacities for public notaries, who will be required to supervise union elections; and (iii) developing strategies for electoral observation and monitoring of grievances by workers or employers regarding labor union democratic processes.
- 1.25 **Tentative schedule for implementation of the labor reform.** The STPS envisages a three-stage implementation of the labor reform. By year-end 2020, it expects new labor courts and FCLCR offices to be operating in 10 states. By year-end 2021, it expects to have incorporated an additional 11 states. By year-end 2022, the remaining 11 states are expected to begin to operate under the new labor justice model.⁵⁸ By the end of the current administration's term of office, each component of the reform is expected to have been fully implemented. In this context, this first operation supports the legal change of the reform, while the second operation will support the implementation calendar.
- 1.26 **Tentative schedule for the other measures included in the programmatic series.** With regard to improvements in the oversight of social security obligations, the reform of the Federal Labor Law published in May 2019 disregards the legal effect of stipulations regarding the evasion of labor and/or social security obligations, and the enrollment of a worker with wages lower than those he or she actually earns. The pilot for formalization of informal salaried employees in formal businesses is expected to be carried out between 2020 and 2021. Regarding household workers' right to social security, the reform of the Federal Labor Law was published in the Federal Official Gazette (DOF) on 2 July 2019. The adjustments and legal reserves required to include household workers in the IMSS mandatory system are expected to be implemented in 2021. Other rights, including the right to a written contract, are now in effect. With respect to better returns on retirement savings through lower fees, the agreement between the authorities and the AFOREs to reduce AFORE fees to internationally competitive levels between 2020 and 2024 was published in

⁵⁸ See [labor reform implementation](#) for more details on scaled implementation.

the DOF on 22 August 2019. By 2021, the weighted average AFORE fee is expected to decline by at least 0.1% with respect to its 2019 level.

7. Relation to other Bank transactions and lessons learned

- 1.27 The Bank has extensive experience in, and unique knowledge of, the labor market in Mexico and other countries. This experience points to the importance of making substantive modifications to the systems of labor representation, reducing the cost and length of labor disputes, and improving the current functioning of social security, particularly for disadvantaged groups. The Bank has implemented operations to improve the job training and placement systems (loans 1384/OC-ME, 1936/OC-ME, 2219/OC-ME, 2736/OC-ME, and 4314/OC-ME). It has learned that a good job placement system can connect workers to formal, well-paying jobs when these exist, but it cannot create these quality jobs. Public job training programs, which can improve the employment situation for some workers, are costly and would be hard pressed to benefit a large percentage of workers. This has led to experience in identifying structural hurdles to improving labor representation and barriers to the creation of quality jobs. The Bank also has experience in other countries (loans 4714/OC-PE, 2834/OC-CO, 3029/OC-CO, and 4955/OC-CO) in which there is a need to promote regulatory and institutional changes in order to improve the labor conditions of workers. This lesson was incorporated into Component 2, which seeks to strengthen workers' bargaining power to improve their employment conditions. Component 4 also makes use of this knowledge by introducing regulatory changes in the area of social security.
- 1.28 **Lessons learned.** This operation has been designed on the basis of specific knowledge derived from the Bank's intensive relationship with the Government of Mexico during the conceptualization of the labor reform, as reflected in Components 2 and 3. Certain elements proposed by the Bank were taken up in the reform. They include: (i) the Bank's analytical work in other countries to assess the conditions in their labor markets and identify their structural problems, such as effective oversight of social security contributions; (ii) sharing experiences and good practices in terms of productivity; and (iii) conducting studies to support the design of the operation.
- 1.29 **Better worker representation.** Collective bargaining has been recently recognized by the Organisation for Economic Co-operation and Development (OECD) as an essential instrument for achieving inclusive labor markets, improving job quality, and ensuring that workers' interests are taken into account.⁵⁹ In most countries, worker representation has declined,⁶⁰ weakening these social partners' voice in shaping labor relations and leading to potential imbalances between the interests of workers and of companies in the labor market. The changes brought on by the new technologies can create greater imbalances, highlighting the need for better representation. Only thus will it be feasible for employers and workers' unions to find mutually beneficial solutions. The challenge is striking a balance between inclusion and flexibility in representation. The labor reform is designed to ensure that union representation becomes an important driver for achieving salary improvements and thereby improving the quality of jobs. The design of this operation is clearly aligned

⁵⁹ OECD (2019).

⁶⁰ Union density (proportion of workers who are union members) has declined in OECD countries, with unions losing more than half of their reach, from 33% in 1975 to 16% in 2018. In addition, the average proportion of workers covered by a CBA in the OECD area has fallen from 45% in 1985 to 32% in 2017.

with the practices in this field, since the inclusion of arrangements for labor union democracy and registration of CBAs will mean that a significant step has been taken toward better worker representation (Component 2). The content of the reforms is aligned with the ILO's Convention C098 on the right to organize and collective bargaining, which Mexico only ratified in 2018.⁶¹ The OECD's recommendation to Mexico was to improve collective bargaining to help workers and companies define new rights, regulate the adoption of new technologies, and foster labor market security and adaptability.⁶² All of this is reflected in this operation, particularly in the measures included in Component 2 to ensure that workers have an effective voice to negotiate better work conditions.

- 1.30 **Gender equality in labor unions.** Women are underrepresented among union leaders, which explains why negotiations infrequently include issues that are more relevant to women. In their analysis of gender and labor unions, Britwum, Douglas, and Ledwith (2012) observed that, while union bargaining can include matters of gender equality, such as paid parental leave, breastfeeding support, childcare, and balance between work and family life, these matters are relegated to a secondary role with respect to negotiations on pay and other benefits. Analyzing data from the Philippines, these authors noted that women's priorities were among the six major issues most likely to be exchanged for other bargaining proposals. In addition, employers were very likely to resist agreeing to provisions that entailed additional costs. As a result, some companies discouraged women from participating in negotiating teams, thereby deepening women's exclusion from the collective bargaining mechanisms and further relegating gender equality issues in union bargaining proposals. These lessons have been directly incorporated into the program in Component 2 through the requirement for proportional gender representation on union boards of directors.
- 1.31 **Labor justice.** Both the OECD and the ILO have made recommendations to improve the administration of labor justice in Mexico. The evidence analyzed in various publications shows that workers seldom challenge the employers' decisions through the judicial system. The main reasons include the long delays until a ruling is rendered when cases are taken to labor courts, workers' insufficient knowledge of the protective provisions, and the context of a large number of poorly represented workers.⁶³ The reform supported by this operation will enable a substantial reduction in the timeframes for administration of labor justice, with a focus on early and expeditious conciliation. Component 3 absorbs these lessons by fostering labor conciliation for a quick resolution of disputes, promoting predominantly oral judicial proceedings, and ensuring that workers are advised as to their rights and options in a labor dispute.
- 1.32 **Coordination with the private sector.** It is important to emphasize the depth of the reforms in terms of both worker representation and labor justice. The Bank's experience indicates that the political economy of this type of reforms is complex and requires special local conditions enabling a consensus among the stakeholders in productive relationships (government, workers, and companies). All

⁶¹ The Mexican Senate ratified this convention on 20 September 2018 [Right to Organize / Collective Bargaining Convention](#).

⁶² <https://www.oecd.org/mexico/Employment-Outlook-Mexico-EN.pdf>.

⁶³ OECD (2019), Marshall (2004), Cardoso and Gindin (2009).

of this has taken place in Mexico in recent years. The private sector has supported the process of discussing the reform proposals, which made it possible to achieve the majority required for their approval. The private sector's ongoing participation was institutionalized through the National Cooperation and Productivity Committee, which will operate as an advisory body during the implementation of the labor reform. The training courses for officials in the new FCLCR, collaboration with the UNDP to implement best practices in labor union democracy, and efforts to incorporate lessons learned into the conciliation process will have feedback from the private sector. This includes programming these practices in the FCLCR's technology platform, which is aimed at ensuring that the reforms' lofty ambitions do not remain on paper but instead have a real impact on job quality.

- 1.33 **Oversight of social security and pensions.** The evidence in the Bank's studies shows that a limited oversight capacity at the social security institutions reduces the capacity for offering coverage and insurance to workers.⁶⁴ Moreover, it is not possible to provide effective oversight without clarity regarding prohibited practices. This lesson is incorporated into Component 4 by promoting worker formalization through the prohibition of mechanisms that involve evasion of labor or social security obligations or the enrollment of a worker with wages lower than those he or she actually earns. Better oversight leads to significant reductions in informality.⁶⁵ To maximize this outcome, it is important to supplement these improvements with other, simultaneous measures, such as improving the administration of pension benefits. Through the Network for Pensions (technical cooperation operation ATN/OC-16485-RG), the Bank has promoted the need to strengthen the institutional capacity of the social security institutions and the importance of developing supervisory and regulatory standards and good practices, including improvements in the contribution systems. The Bank is collaborating with the Department of Finance (SHCP) to put in place these institutional improvements in the pensions area. These issues will be supported under Component 4 of the series.

8. Summary of the reforms

- 1.34 The programmatic series will support the creation and implementation of a new labor representation and justice model, as well as social security improvements that lead to better-quality jobs. The first operation focuses on creating legal instruments (laws and decrees) that embody far-reaching changes in worker representation and democracy, labor justice, and the functioning of social security. The second operation will focus on implementing the legislative changes for the benefit of workers. The envisaged legislative changes will be sufficient to accomplish the above, although implementation and coordination with the labor justice systems at the state level will pose significant challenges with a view to achieving future sustainability. The new labor justice model and the incipient social security improvements will in the future, subsequent to the programmatic series, have to gradually improve through good administrative work that can result in effective worker representation, lower costs of administering justice, and higher rates of social security coverage.

⁶⁴ Bosch et al. (2013).

⁶⁵ Andrade et al. (2013) and Almeida and Carneiro (2012).

9. Vertical logic

- 1.35 The vertical logic of this programmatic series is based on achieving the conditions needed to improve worker wages and their enrollment in social security. This will be accomplished through institutional sustainability of the new labor union democracy, the new labor justice model, and the improved social security functioning. In turn, this will require sufficient public financing to enable the new labor justice model to be fully operational and reach optimal governance and institutionalization. The outputs described in the policy matrix specify the legal instruments required to move forward on this programmatic operation toward such institutionalization. This first operation of the series focuses on the approval of policy measures, while their implementation will be consolidated in the second programmatic operation.

10. Strategic alignment

- 1.36 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and is aligned with the development challenges of: (i) social inclusion and equality, by promoting better labor conditions; (ii) productivity and innovation, through legislative reforms to simplify processes and reduce costs for employers; and (iii) economic integration, by implementing the necessary new labor legislation in the framework of a trade agreement. The program is also aligned with the crosscutting areas of: (i) gender equality and diversity, by promoting the inclusion of household workers in the social security system, fostering the inclusion of women in union leadership positions, and protecting pregnant women from employment termination; and (ii) institutions and rule of law, by creating new institutions for more efficient management of labor policy. In addition, the program will contribute to the Corporate Results Framework (CRF) 2020-2023 (document GN-2727-12) with respect to: (i) beneficiaries receiving health services; and (ii) countries with strengthened gender equality and diversity policy frameworks.
- 1.37 The operation is aligned with the IDB Group's Country Strategy with Mexico (document GN-2982), which lists strengthening the labor market as a strategic objective and indicates that the Bank will support the implementation of specific regulations associated with the labor reform. The program is consistent with the Bank's following Sector Framework Documents: (i) Labor (document GN-2741-7), in promoting successful career paths while simultaneously enhancing productivity and social inclusion. To this end, the program supports the participation of the productive sector, adopts a gender perspective and devotes special attention to vulnerable groups (household workers), and promotes the adoption of new technologies through the new labor justice system. In addition, this operation supports "reform programs in the regulatory area permitting a balance between the objectives of protection and creation of formal work;" (ii) Gender and Diversity (document GN-2800-8), since it is aligned with the main goal of achieving equal access to opportunity for groups whose living standards are affected by factors such as race, ethnicity, and/or gender. The operation will make it possible to: (a) improve the well-being of women and children by expanding access to quality public services; (b) expand women's economic opportunities by increasing female participation, closing economic gender gaps, and improving women's access to more productive and better-paid jobs and occupations; and (c) strengthen women's voice and agency

by promoting their leadership;⁶⁶ and (iii) Innovation, Science, and Technology (document GN-2791-8), in terms of “improving the business climate,” since the certainty of the labor reform will give the private sector greater confidence regarding employment contracts. The program is also included in the 2020 Operational Program Report (document GN-2991-1).

B. Objectives, components, and cost

- 1.38 **Objective and expected outcomes.** The development objective of this programmatic series is to lay the groundwork for improving the quality of employment in Mexico through better worker representation; lower labor dispute resolution costs; and higher social security coverage rates at lower costs. The objective of this first operation is to improve job quality by supporting the design of regulatory labor reforms aimed at: (i) improving the defense of labor rights; (ii) improving labor justice; and (iii) improving the functioning of social security.
- 1.39 **Component 1. Macroeconomic sustainability.** This component is aimed at maintaining a stable macroeconomic context consistent with the objectives of the program, as established in the Policy Matrix (Annex II).
- 1.40 **Component 2. Regulatory framework to improve job quality.** This component is aimed at strengthening representation and democracy within unions. To this end, the program will support: (i) a reform of the Federal Labor Law designed to transfer union-related legal disputes from the executive branch to the judicial branch and create transparent processes evidencing unions’ representation and approval and registration of CBAs; and (ii) preparing and publishing in the DOF a protocol to validate existing CBAs, to be effective until the FCLCR becomes operational. This measure is transitional and is designed to enable the review of CBAs in existence prior to the creation of the FCLCR.
- 1.41 This first operation will support the following measures to promote representation and democracy within unions: (i) collective labor disputes will be adjudicated by labor courts; (ii) employer meddling in union activities will be considered illegal; (iii) union directors will be elected through the personal, free, direct, and secret vote of the members; (iv) an independent entity will be created to verify, through a personal, free, direct, and secret vote, that a majority of workers supports the CBA and to keep a register of all CBAs; and (v) union boards of directors will have proportional gender representation.
- 1.42 Regarding the validation of existing CBAs to ensure that they have majority support among workers, the first operation will support the preparation and publication in the DOF of a protocol to validate existing CBAs, to be effective until the FCLCR becomes operational, including the following: (i) validation of the existing agreement will require the approval of a majority of the covered workers through free, direct, and secret voting; (ii) the union will be required to provide a list of workers with the right to vote; (iii) the workers will need to show an official identification document

⁶⁶ Gender equality is addressed in Components 2, 3, and 4. Component 2 supports the legal requirement for proportional gender representation on union boards of directors. Component 3 supports the legal requirement for employers to refrain from removing a terminated pregnant employee from the social security institution with which she is affiliated when the court believes that there are sufficient indications that she was terminated because of her pregnancy. Component 4 supports the mandatory inclusion of household workers (90% of whom are women) in the social security system.

when arriving to vote; and (iv) voting will be supervised by the STPS or by a notary public.

- 1.43 The indicative policy actions for the second operation include: preparation and DOF publication of the specific protocols for election of union boards and confirmation of support for CBAs (under FCLCR supervision), consistent with the conditions of the new union-related democratic processes established in the labor reform and in Annex 23-A of the USMCA. The publication of these protocols will ensure that these union-related democratic processes enter into force in at least 10 of the 32 Mexican states.
- 1.44 **Component 3. Regulatory framework and use of technology to improve the resolution of individual labor disputes.** This component is aimed at achieving a more efficient resolution of labor disputes by instituting a mandatory pretrial conciliation process supported by new technologies. Thus, this first operation promotes a reform of the Federal Labor Law that transfers dispute resolution to the judicial branch with the following procedural characteristics: (i) predominantly oral proceedings in the presence of a judge; (ii) a list of improper and sanctionable practices by workers, companies, attorneys, and public officials; (iii) the requirement that, in the event of a ruling against the employer, the court notify the IMSS to ensure that the worker is duly enrolled and the worker's rights to social security are guaranteed; (iv) mandatory use of the system for processing authority requests (SIARA) to investigate bank accounts and the levy and enforcement procedure; and (v) requirement that the employer refrain from removing a terminated pregnant employee from the social security institution with which she is affiliated when the court believes that there are sufficient indications that she was terminated because of her pregnancy. For the mandatory pretrial conciliation process, this operation will promote a legislative change that includes: (i) making it mandatory; (ii) providing advice and information to workers in the presence of the worker and the employer or a representative with sufficient power and authority to bind the employer; (iii) penalties upon the employer's failure to appear at the conciliation hearing and termination of the dispute upon the worker's failure to appear; (iv) a 45-day limit for the conciliation process; (v) assignment of an electronic mailbox to the worker and the employer for notifications during the conciliation process; and (vi) random assignment of notifiers to ensure that the responsible staff acts impartially.
- 1.45 Component 3 includes two additional measures to support the start of implementation of the labor reform. To ensure proper coordination among institutions, the first operation promotes the establishment of a coordination council for implementation of the labor justice system reform, to be tasked with the following duties: (i) issue the resolutions, guidelines, standards, procedures, and other regulatory instruments required for proper fulfillment of its purpose, providing that these will be binding on its members; (ii) prepare the policies, programs, and mechanisms required to coordinate a national strategy at the federal and state levels for implementing the labor justice system, providing a schedule of commitments and development stages; (iii) develop the criteria for the signing of interagency collaboration agreements as well as coordination agreements with state governments and international cooperation agreements; and (iv) promote a gender perspective in all actions carried out when implementing the labor reform. Moreover, to ensure proper coordination with the states, the operation promotes the creation of a liaison unit for labor justice reform at the STPS, to be tasked with the following

- duties: (i) advise, guide, and assist the states in implementing the reform of the labor justice system within the framework of their responsibilities and purview; (ii) develop and propose the programs, strategies, mechanisms, criteria, and regulatory instruments required of the federal and state entities and agencies for implementing the reform of the labor justice system within the framework of their responsibilities and purview; and (iii) request of federal and state entities and agencies any information needed to prepare reports, studies, diagnostic assessments, and indicators to identify and evaluate progress on, and the achievement of, targets in implementing the reform of the labor justice system.
- 1.46 The second operation envisages indicative policy actions to verify the functioning of the new labor justice model. This includes verifying the commencement of operations of the labor courts responsible for hearing labor lawsuits and the FCLCR offices in charge of pretrial conciliation in at least 10 of the 32 states. This will make it possible to identify the aspects of the new model that need to be corrected to make it fully operational. To ensure proper management of the human resources at the institutions responsible for implementing the labor reform, the second operation envisages sending to the Mexican Senate a shortlist for the post of director-general of the FCLCR and hiring staff for the FCLCR in 10 states through open competitions. In addition, to ensure that the states have sufficient financial resources to implement the labor reform, the second operation envisages transferring funds to at least 10 states through item 14 of the federal expenditure budget to enable these states to perform the actions required of them pursuant to the applicable regulatory provisions within the framework of the labor justice system reform.
- 1.47 **Component 4. Regulatory framework to improve the functioning of social security.** This component is aimed at improving the functioning of the social security system, promoting the formalization of household workers and informal salaried employees at formal companies as well as greater returns on retirement savings for all formal workers. To this end, the first operation will support the following actions: (i) reform of the Federal Labor Law including provisions that disregard the legal effect of stipulations that prevent or limit the enjoyment and exercise of labor rights, such as the evasion of labor and/or social security obligations and the enrollment of a worker with wages lower than those he or she actually earns; (ii) reform of the Federal Labor Law regulating household work, including: the obligation to enroll household workers into the IMSS mandatory system, specifying that this obligation becomes effective once the necessary adjustments and legal reserves are implemented; prohibition against hiring employees under 15 years of age; obligation for household work to be set forth in a written contract; obligation to provide, at a minimum, the following benefits: vacation, vacation bonus, paid days of rest; and a holiday bonus; and a guarantee of at least one day and a half of uninterrupted rest per week; and (iii) implementation of a mechanism to reduce AFOREs' management fees to internationally competitive levels in the period from 2020 to 2024.
- 1.48 The indicative policy actions for the second operation include: (i) conducting a pilot to foster enrollment in social security by informal wage-earning workers based on an analysis of the Tax Administration Service and IMSS databases; (ii) implementing the adjustments and legal reserves required to allow household workers to be covered by the IMSS mandatory system; and (iii) reducing the weighted average fee charged by AFOREs by at least 0.1% with respect to their 2019 level (and providing that this reduction will take place no later than 2024). This is intended to enable

specific improvements in the normal operation of the social security system which serves the majority of the population.

- 1.49 **Beneficiaries.** The reform's beneficiary population is the economically active population (55.68 million workers), particularly formal workers or those with jobs that can be formalized (34.72 million, 62% of the total).⁶⁷ The implementation of the labor reform will directly influence the functioning of the worker representation mechanisms and will introduce a new system of labor justice for the entire population.

C. Key results indicators

- 1.50 **Results matrix.** This matrix identifies the expected outputs and outcomes of the implementation of policy measures aimed at improving job quality in Mexico. In terms of the final development objectives, the impact indicators of this operation are: (i) improvement in the Better Jobs Index produced by the Bank every two years; and (ii) improvement in the percentage of the population with employment income below the cost of the food basket. The outcome indicators measure the advances in democracy in unions, the new labor justice model, and the improvements in social security. This includes: (i) an improvement in the International Trade Union Confederation's Global Rights Index; (ii) a higher real contractual wage increase within the federal jurisdiction in the 2019-2024 period with respect to the 2013-2018 period; (iii) a greater percentage of individual labor disputes resolved through conciliation; (iv) certainty in the percentage of CBAs that are registered at the FCLCR; (v) an increase in the number of household workers enrolled in the IMSS; and (vi) lower fees on retirement savings.
- 1.51 **Challenges addressed and not addressed by the programmatic series.** This programmatic series focuses on improving the defense of labor rights, which is particularly important in a labor market with a higher informality rate and lower real salaries than in other Latin American countries with similar levels of productivity and GDP per capita. This programmatic series does not directly address the productivity problems. Greater investment, better educational quality, and better labor incentives through a reform of the social security program would be a complement to the policies set out in this programmatic series, as indicated in the IDB Group's Country Strategy with Mexico (document GN-2982).
- 1.52 **Economic analysis.** According to the recommendations of the Office of Evaluation and Oversight (OVE)⁶⁸ set out in its 2011 Evaluability Review of Bank Projects, the findings of the review of evaluation practices and standards for policy-based loans (PBLs) conducted by the Evaluation Cooperation Group (ECG) (composed of the independent evaluation offices of multilateral development banks),⁶⁹ and the provisions of paragraph 1.3 of the Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations (document

⁶⁷ Authors' calculations based on data from the INEGI's National Occupation and Employment Survey (ENOE), fourth quarter 2019.

⁶⁸ Document RE-397-1: "Currently, the economic analysis section is computed as the maximum between the cost-benefit analysis and the cost-effectiveness analysis. Yet neither a cost-benefit analysis nor a cost-effectiveness analysis is applicable to policy-based loans."

⁶⁹ Good Practice Standards for the Evaluation of Public Sector Operations. Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 Revised Edition. February 2012.

GN-2489-5), which indicate that there is no need for an analysis of efficiency in the use of the financial resources,⁷⁰ it was determined not to conduct an economic analysis for this type of loan and the Bank's Board of Executive Directors was informed accordingly. Thus, this loan operation does not include an economic analysis, and economic analysis will not be a factor for consideration in measuring the evaluability score in the program's Development Effectiveness Matrix.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This operation has been structured as a programmatic policy-based loan (PBP) and is the first of two contractually separate but technically linked loan operations, each providing for a single disbursement, in line with the provisions of the document Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-2). The programmatic modality was chosen because it: (i) encourages a continuous policy dialogue between the Government of Mexico and the Bank; (ii) facilitates adjustments to the policy implementation strategy and coordination within the government; and (iii) facilitates monitoring advances in the reform process and provides feedback for the reform through the findings arising during program execution, so as to consolidate the advances achieved by the country on the basis of the labor reform. The second operation is expected to be prepared in 2022, as described in paragraph 1.25.
- 2.2 **Size of the operation.** The first operation of this programmatic series will be for US\$800,000,000 from regular Ordinary Capital (OC) resources. As provided in paragraph 3.27(b) of the document Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-2), the size of the operation was determined on the basis of the country's broad fiscal resource needs. This amount is equivalent to 0.86% of the public sector financing needs and 12.84% of the external financing needs for 2020.

B. Environmental and social risks

- 2.3 Pursuant to Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this program does not require ex ante classification of impacts. The operation supports the determination of policies, standards, management instruments, and other institutional strengthening actions, and therefore, no significant direct impacts are anticipated on the environment or natural resources.

C. Fiduciary risks

- 2.4 No fiduciary risks have been identified. The proceeds will go directly to the single treasury account to cover the country's financing needs, and the executing agency has the necessary financial management instruments and control systems.

⁷⁰ According to the ECG, PBLs should be evaluated in terms of their relevance, effectiveness, and sustainability. Efficiency is not included as a criterion since the size of a PBL is linked to a country's financing gap and is independent from the operation's benefits.

D. Other risks and key issues

- 2.5 **Risks.** All of the conditions for this operation have been fulfilled and its risks are minor. For the second operation, five medium development risks have been identified. Development risk 1 is that a potential absence of final plans (physical characteristics, costs, execution timeframes) for the new labor justice centers (replacing the current model) could delay the launch of the labor conciliation processes and in turn delay the implementation of the labor reform designed to benefit workers. This risk could entail a delay in achieving the triggers for the second operation. Development risk 2 is that a lack of human resources trained in oral conciliation as envisaged in the current plan, which are the basis for implementing the new labor justice system, could cause delays in the conciliation processes. Development risk 3 is that a lack of indicators to monitor the implementation of the new labor system, or reporting errors and inconsistencies, could prevent monitoring of the effective implementation of the reform and make it impossible to identify implementation delays and problems. Development risk 4 is that a potential lack of technical and material capacity in state authorities could cause delays in implementing the reforms at the state level. Development risk 5 is that a potential lack of coordination with the private sector for implementation of the reforms, including the pretrial conciliation processes in labor disputes, could prevent a substantive improvement in labor justice. The consequences of risks 2, 3, 4, and 5 would be a less effective implementation than planned and thus a potential delay in achieving the triggers for the second operation.
- 2.6 **Risk mitigation.** All the risks identified in the preceding paragraph have to do with potential delays or inefficiencies in implementing the labor reform. To mitigate these risks, the Bank is closely supporting the Government of Mexico in the implementation of the reform through technical cooperation operation ATN/OC-17459-ME. The training courses will help the new FCLCR to begin to operate on time (risk 1) and with properly trained staff (risk 2). The Bank's support in the area of online platform development, including the engagement of a company specializing in technology platforms, will also help to ensure that the new center becomes operational on time (risk 1). This support additionally includes creating the indicators required to monitor the implementation (risk 3). Lastly, the Bank will promote a dialogue with the state authorities, to share the technical inputs needed to implement the reform at the local level through the liaison unit for labor justice reform (risk 4), and with the private sector through the National Coordination and Productivity Council (risk 5).
- 2.7 **Sustainability.** The Government of Mexico has resolutely supported the actions fostered by this programmatic series and has publicly announced its commitment to financing the reform in subsequent years. In fact, the President of Mexico announced that the budget that has been committed for this purpose until 2023 is equivalent to US\$830 million and that the government expects to maintain its financing to ensure that the new system continues to function in the future.⁷¹ In addition to the fiscal considerations, it is worth noting that an effective implementation of the labor reform is a key aspect in ensuring that the USMCA is

⁷¹ [Letter to the Committee on Ways and Means of the United States House of Representatives.](#)

approved and remains in effect.⁷² Furthermore, the USMCA provides monitoring mechanisms to ensure fulfillment of the labor reform.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower is the Government of the United Mexican States, represented by the SHCP, which will be the executing agency along with the STPS. They will be responsible for fulfilling and monitoring the commitments undertaken by various State institutions under the Policy Matrix (Annex II). This includes coordinating timely fulfillment of the commitments corresponding to this first operation as well as the other commitments and scopes associated with the reform. They will also be responsible for providing information on progress with respect to the Policy Matrix and Results Matrix, and for forwarding the evidence for the means of verification to the Bank. The Results Matrix indicators will guide the evaluation of progress in implementing the program and enable an evaluation upon the conclusion of the final programmatic operation. The borrower and the Bank have agreed to monitor the execution of the program through monitoring meetings on dates to be determined between the executing agency and the Bank. The timing for preparing the second operation, which is expected to take place in 2022, will be based on this monitoring and on the agreed-upon triggers. The Policy Matrix and the means of verification matrix are presented to monitor and evaluate the scope of the PBP's objectives. These two instruments and the Results Matrix will guide the monitoring of progress on implementing the program as well as the final evaluation.
- 3.2 Special contractual conditions precedent to the first and only disbursement: The single disbursement for the first operation of the programmatic series will be contingent upon: **(i) the signing of a mandate agreement between the borrower and its financial agent; and (ii) fulfillment of the policy conditions provided in the Policy Matrix (Annex II) and policy letter, as well as fulfillment of the other conditions set out in the loan contract.**

B. Summary of arrangements for monitoring results

- 3.3 The monitoring of the program focuses on verifying the policy measures agreed upon as conditions for disbursement and described in the Results Matrix and [Means of Verification Matrix](#). In addition, the outcomes of the reforms will be monitored through the indicators included in the Results Matrix. Fulfillment of the output indicators will be verified through the information listed in the means of verification matrix. This instrument sets out all the actions to be implemented under the program, the entities responsible for achieving these actions, and the specific information that will enable the Bank to verify their fulfillment. The outcomes of the policy changes promoted by the program will be monitored through information on fulfillment of these indicators provided by institutional reports or administrative systems of the STPS, IMSS, and the Comisión Nacional del Sistema de Ahorro para el Retiro [National Commission for the Retirement Savings System] (CONSAR).
- 3.4 The impact indicators will be measured through a nonexperimental evaluation described in the [Monitoring and Evaluation Plan](#). This includes two indicators: the

⁷² [Decree](#).

Better Jobs Index value for Mexico, calculated by the Bank on the basis of information on household income provided by the INEGI, and a second indicator that measures the percentage of the population with employment income below the cost of the food basket and thus the percentage of households whose employment income is insufficient to rise above the food poverty line. This indicator is published by the National Council for the Evaluation of Social Development Policy (CONEVAL), using data from the National Occupation and Employment Survey (ENOE) conducted by the INEGI. This evaluation will be performed as part of the preparation of the project completion report (PCR), which will be prepared jointly for the two operations following the conclusion of the second operation, and subsequently through the STPS reports.

IV. POLICY LETTER

- 4.1 The [policy letter](#) reaffirms the Government of Mexico's commitment to the objectives and actions envisaged for the programmatic operation as a whole and the consistency of the national policies for improving the quality of employment.

Development Effectiveness Matrix		
Summary		ME-L1289
I. Corporate and Country Priorities		
1. IDB Development Objectives		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation -Economic Integration -Gender Equality and Diversity -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Formal employment of women (%) -Women beneficiaries of economic empowerment initiatives (#)*	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2982	Contribute to equitable and sustainable access to social services.
Country Program Results Matrix	GN-2991-1	The intervention is included in the 2020 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		10.0
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		4.0
3.3 Results Matrix Quality		3.0
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		9.3
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		6.8
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, External Control, Internal Audit. Procurement: Information System, Price Comparison.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	The technical cooperation ME-T1278 (ATN/OC.15248-ME) the Bank supported a pilot program Organize the work of the personnel in charge of delivering the notifications in a conciliation and arbitration board and it reduced the time to handout the notifications. The lessons from this pilot were included in the Labor Reform.

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

Evaluability Assessment Note:

This is a programmatic series, of US\$800 million in its first operation, aimed at establishing the bases to improve the quality of employment in Mexico through better labor representation; lower cost of the resolution of labor conflicts; and higher coverage rates and lower social security costs. The objective of the first operation is to support the design of regulatory labor reforms to: (i) improve the defense of labor rights; (ii) improve labor justice; and (iii) improve the operation of social security. The diagnosis is adequate and highlights the problems faced by the country. Most of the jobs in the Mexican labor market are of low quality; In the IDB's 2018 Best Jobs Index, Mexico ranks 13th out of 17 countries in Latin America, and is in 10th place in the formality sub-indicator and 14th in sufficient salary. Likewise, the participation of workers in total income is very low when compared to other countries. The percentage of workers without social security reached its historical minimum level in the fourth quarter of 2019 with a very high value of 62.4%. Additionally, Mexico is the Latin American country with the second least effective defense of labor rights and the resolution of individual labor conflicts is prolonged, which increases labor costs. The operation of social security presents several important areas for improvement, and all the problems are exacerbated for the quality of employment of women (who have a low participation in union boards, and have practically no social security coverage in areas of high over-representation such as that of domestic workers). The programmatic series will support the creation and implementation of a new model of labor representation and justice, in addition to improvements in social security that result in better quality of jobs. The first operation in the programmatic series focuses on the creation of legal instruments (laws, decrees, studies), while the second operation will focus on the implementation of legal changes. The proposed outcome indicators are SMART, with baseline and targets and means of verification identified.

The monitoring and evaluation plan proposes to measure the key results before and after the series, with adequate sources of information. It also proposes an impact evaluation with a non-experimental difference-in-differences methodology that will measure the impact on two indicators: the value of the Best Jobs Index in Mexico, calculated by the IDB and the percentage of the population with labor income below the cost of the food basket. Additionally, it proposes a qualitative evaluation of the labor reform process.

POLICY MATRIX

Objective: The development objective of this programmatic series is to lay the groundwork for improving the quality of employment in Mexico through better worker representation; lower labor dispute resolution costs; and higher social security coverage rates at lower costs. The objective of this first operation is to improve job quality by supporting the design of regulatory labor reforms aimed at: (i) improving the defense of labor rights; (ii) improving labor justice; and (iii) improving the functioning of social security.

Components/ Policy objectives	Policy conditions for programmatic operation I	Status of fulfillment of conditions for programmatic operation I	Triggers for programmatic operation II
Component 1. Macroeconomic sustainability			
1. Contribute to the stability of the general macroeconomic policy framework.	1.1.1. Maintain a stable macroeconomic framework conducive to achievement of the program objectives and consistent with the guidelines set out in the sector policy letter and the contents of this policy matrix.	Fulfilled	1.2.1. Maintain a stable macroeconomic framework conducive to achievement of the program objectives and consistent with the guidelines set out in the sector policy letter.
Component 2. Regulatory framework to improve job quality			
2. Strengthen union representation and democracy.	<p>2.1.1. Reform of the Federal Labor Law that includes the following components to strengthen union representation and democracy:</p> <p>(i) collective labor disputes are to be adjudicated by labor courts;</p> <p>(ii) employer meddling in union activities is to be considered illegal;</p> <p>(iii) union directors are to be elected through the personal, free, direct, and secret vote of the workers;</p> <p>(iv) an independent entity is to be created to verify, through a personal, free, direct, and secret vote of workers, that a majority of workers supports the collective bargaining agreement (CBA) and to keep a register of all CBAs; and</p> <p>(v) union boards of directors are to be required to have proportional gender representation.</p>	Fulfilled (second quarter 2019)	<p>2.2.1. Publish a protocol in the Federal Official Gazette (DOF) to ensure that the processes for the election of union boards supervised by the new Federal Center for Labor Conciliation and Registration (FCLCR) enter into force in at least 10 Mexican states, including the following provisions:</p> <p>(i) the elections will be conducted through workers' votes;</p> <p>(ii) there will be a register of union members with the right to vote; and</p> <p>(iii) there will be a system for verifying compliance with the rules for elections.</p>

Components/ Policy objectives	Policy conditions for programmatic operation I	Status of fulfillment of conditions for programmatic operation I	Triggers for programmatic operation II
3. Validate the existing collective bargaining agreements.	<p>3.1.1. Prepare and publish in the DOF a protocol to validate existing CBAs, to be effective until the FCLCR becomes operational, including the following:</p> <p>(i) validation of the existing agreement will require the approval of a majority of the covered workers through free, direct, and secret voting;</p> <p>(ii) the union will be required to provide a register of workers with the right to vote;</p> <p>(iii) the workers will need to show an official identification document when arriving to vote; and</p> <p>(iv) voting will be supervised by the Department of Labor and Social Welfare (STPS) or by a notary public.</p>	Fulfilled (third quarter 2019)	<p>3.2.1. Prepare and. publish a protocol in the DOF to ensure that the processes for approval and validation of CBAs, supervised by the new FCLCR, enter into force in at least 10 Mexican states, including the following provisions:</p> <p>(i) the CBA will require the approval of a majority of the covered workers;</p> <p>(ii) the union will be required to provide a register of workers with the right to vote;</p> <p>(iii) the identity of the workers will be verified; and</p> <p>(iv) the elections will be supervised by the relevant authority or by a notary public.</p>
Component 3. Regulatory framework and use of technology to improve the resolution of individual labor disputes			
4. Create labor courts for a more expeditious resolution of labor disputes.	<p>4.1.1. Reform of the Federal Labor Law to create labor courts under the judicial branch for resolution of disputes between workers and employers. The reform will include the judicial process with the following elements:</p> <p>(i) predominantly oral proceedings in the presence of a judge;</p> <p>(ii) a list of improper and sanctionable practices by workers, companies, attorneys, and public officials;</p> <p>(iii) the requirement that, in the event of a ruling against the employer, the court notify the Mexican Social Security Institute (IMSS) to ensure that the worker is duly enrolled and the worker's rights to social security are guaranteed;</p> <p>(iv) mandatory use of the system for processing authority requests (SIARA) to investigate bank accounts and the levy and enforcement procedure; and</p>	Fulfilled (second quarter 2019)	4.2.1. Commencement of labor court operations in at least 10 Mexican states under the conditions set out in 4.1.1 for the first operation of the programmatic series.

Components/ Policy objectives	Policy conditions for programmatic operation I	Status of fulfillment of conditions for programmatic operation I	Triggers for programmatic operation II
	(v) requirement that the employer refrain from removing a terminated pregnant employee from the social security institution with which she is affiliated when the court believes that there are sufficient indications that she was terminated because of her pregnancy.		
5. Create a pretrial conciliation process for labor disputes.	<p>5.1.1. Reform of the Federal Labor Law and publication of the Organic Law for the FCLCR establishing a pretrial conciliation process for labor disputes, with the following characteristics:</p> <p>(i) the process will be mandatory;</p> <p>(ii) advisory support and information will be provided to workers in the presence of the worker and the employer or a representative with sufficient power and authority to bind the employer;</p> <p>(iii) penalties will be levied upon the employer's failure to appear at the conciliation hearing, and the dispute will be terminated upon the worker's failure to appear;</p> <p>(iv) there will be a 45-day limit for the conciliation process;</p> <p>(v) electronic mailboxes will be assigned to the worker and the employer for notifications during the conciliation process; and</p> <p>(vi) notifiers will be randomly assigned to ensure that the responsible staff acts impartially.</p>	Fulfilled (first quarter 2020)	5.2.1. Commencement of FCLCR operations in at least 10 states and with the following characteristics: (i) independent legal status and resources; and (ii) compliance with all Federal Labor Law requirements regarding pretrial conciliation of labor disputes.
	<p>5.1.2. Establish a coordination council for implementation of the labor justice system reform, to be tasked with the following duties:</p> <p>(i) issue the resolutions, guidelines, standards, procedures, and other regulatory instruments required for proper fulfillment of its purpose, which will be binding on its members;</p>	Fulfilled (third quarter 2019)	5.2.2. Send a shortlist to the Mexican Senate for the post of director-general of the FCLCR and hire staff for the FCLCR in 10 states through open competitions.

Components/ Policy objectives	Policy conditions for programmatic operation I	Status of fulfillment of conditions for programmatic operation I	Triggers for programmatic operation II
	<p>(ii) prepare the policies, programs, and mechanisms required to coordinate a national strategy at the federal and state levels for implementing the labor justice system, providing a schedule of commitments and development stages;</p> <p>(iii) develop the criteria for the signing of interagency collaboration agreements as well as coordination agreements with state governments and international cooperation agreements; and</p> <p>(iv) promote a gender perspective in all actions carried out when implementing the labor reform.</p>		
	<p>5.1.3. Create a liaison unit for labor justice system reform at the STPS, to be tasked with the following duties:</p> <p>(i) advise, guide, and assist the states in implementing the reform of the labor justice system within the framework of their responsibilities and purview;</p> <p>(ii) develop and propose the programs, strategies, mechanisms, criteria, and regulatory instruments required of the federal and state entities and agencies for implementing the reform of the labor justice system within the framework of their responsibilities and purview; and</p> <p>(iii) request of federal and state entities and agencies any information needed to prepare reports, studies, diagnostic assessments, and indicators to identify and evaluate progress on, and the achievement of, targets in implementing the reform of the labor justice system.</p>	<p>Fulfilled (first quarter 2020)</p>	<p>5.2.3. Transfer funds to at least 10 states through item 14 of the federal expenditure budget to enable these states to perform the actions required of them pursuant to the applicable regulatory provisions within the framework of the labor justice system reform.</p>

Components/ Policy objectives	Policy conditions for programmatic operation I	Status of fulfillment of conditions for programmatic operation I	Triggers for programmatic operation II
Component 4. Regulatory framework to improve the functioning of social security			
6. Improve oversight of social security obligations.	<p>6.1.1. Reform of the Federal Labor Law including provisions that disregard the legal effect of stipulations that prevent or limit the enjoyment and exercise of labor rights, such as the following:</p> <p>(i) evasions of labor and/or social security obligations; and</p> <p>(ii) enrollment of a worker with wages lower than what he or she actually earns.</p>	Fulfilled (second quarter 2019)	6.2.1. Conduct a pilot to foster enrollment in social security by informal salaried workers based on an analysis of the Tax Administration Service and IMSS databases.
7. Grant household workers the right to social security.	<p>7.1.1. Reform of the Federal Labor Law that regulates household work to include, at a minimum, the following:</p> <p>(i) obligation to enroll household workers in the mandatory system of the Mexican Social Security Institute, specifying that this obligation becomes effective once the necessary adjustments and legal reserves are implemented;</p> <p>(ii) prohibition of hiring people under age 15;</p> <p>(iii) obligation for household work to be covered by a written contract;</p> <p>(iv) obligation to provide, at a minimum, the following benefits: vacation, vacation bonus, payment for days of rest, and holiday bonus; and</p> <p>(v) guarantee of at least one day and a half per week of uninterrupted rest.</p>	Fulfilled (third quarter 2019)	7.2.1. Implement the adjustments and legal reserves required to allow household workers to be effectively covered by the IMSS mandatory system.
8. Improve the returns on retirement savings through lower fees.	8.1.1. Implement a mechanism to reduce the fees of retirement fund managers (AFOREs) to internationally competitive levels in the 2020-2024 period.	Fulfilled (third quarter 2019)	8.2.1. Reduce the weighted average fee charged by AFOREs by at least 0.1 percentage point with respect to their 2019 level. This reduction should take place no later than by 2022.

RESULTS MATRIX

Program objective:	The development objective of this programmatic series is to lay the groundwork for improving the quality of employment in Mexico through better worker representation; lower labor dispute resolution costs; and higher social security coverage rates at lower costs. The objective of this first operation is to improve job quality by supporting the design of regulatory labor reforms aimed at: (i) improving the defense of labor rights; (ii) improving labor justice; and (iii) improving the functioning of social security.
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IMPACTS

Indicators	Unit	Baseline		Targets		Source / Means of verification	Comments
		Value	Year	Value	Year		
Expected impact 1. Improve the quality of employment in Mexico							
Better Jobs Index value for Mexico	Index	53.9	2017	55.0	2024	Inter-American Development Bank Better Jobs Index	Measures jobs in countries based on two dimensions: quantity and quality. The quantity dimension is composed of two indicators: the labor participation rate and the employment rate. Quality, on the other hand, consists of the formality rate and living wage sufficient to overcome poverty. Thus, the index is the weighted average of these four indicators, and their scores range from 0 to 100. Index published by the IDB.
Expected impact 2. Improve the income of employed workers							
Percentage of the population with employment income below the cost of the food basket	Percentage	38.5	2019	35.0	2024	National Council for the Evaluation of Social Development Policy (CONEVAL)	Measures the percentage of households that fail to generate sufficient employment income to rise above the food poverty line. It is published by CONEVAL, using data from the National Occupation and Employment Survey (ENOE) conducted by the National Statistics and Geography Institute (INEGI).

OUTCOMES

Indicators	Unit	Baseline		Targets		Source / Means of verification	Comments
		Value	Year	Value	Year		
Specific objective I: Improve the defense of labor rights							
A. International Trade Union Confederation's Global Rights Index	Index	56.7	2018	70.0	2024	World Economic Forum	Indicates the degree of protection of collective labor rights that must be recognized by governments and employers. Measures the degree of respect for workers' rights. The results of this index are reported annually in the World Economic Forum's Global Competitiveness Report.
B. Real contractual wage increase within the federal jurisdiction (average over the last six years)	Percentage	0.26%	2018	0.35%	2024	National Occupation and Employment Survey	The contractual wage increase is an average weighted by the number of workers involved in wage negotiations. Monthly figures are deflated by the relevant year-on-year monthly inflation and annual figures are deflated by the average inflation in the respective year. The STPS publishes this indicator monthly.
Specific objective II: Improve labor justice							
A. Percentage of individual labor disputes resolved through conciliation	Percentage	78%	2019	83%	2024	STPS reports	Indicates the number of labor disputes that are resolved before leading to a labor lawsuit. It is published annually by the STPS.
B. Percentage of collective bargaining agreements (CBAs) registered at the Federal Center for Labor Conciliation and Registration	Percentage	0	2019	30%	2024	Administrative records at the Federal Center for Labor Conciliation and Registration	Indicates the percentage of CBAs that will be registered using the new institutional structure. As CBAs are reviewed, the information on all existing CBAs is expected to be gradually systematized.
Specific objective III: Improve the functioning of social security							
A. Number of household workers enrolled in the IMSS	Number	17,213	2019	50,000	2024	Annual IMSS reports	Indicates the total number of household workers enrolled at the end of the period.
B. Average management fee on pension fund balance charged by the AFORES	Percentage over total balance under management	0.976%	2019	0.85%	2024	Annual CONSAR reports	Indicates the weighted average fee collected from workers' individual accounts in which their retirement funds are managed.

OUTPUTS

Physical targets and annual execution schedule (base stated in terms of stock, annual outputs stated in terms of flows)

Output	Indicator	Baseline		Targets	Source / Means of verification	Responsible entity
		Value	Year	2020		
Component 2. Regulatory framework to improve job quality						
2.1 Reform of the Federal Labor Law to entrust the resolution of disputes between workers and employers to labor courts that are part of the federal judicial branch.	Reform approved	0	2019	1	Publication of the Federal Labor Law reform in the Federal Official Gazette (DOF)	STPS
2.2 Reform of the Federal Labor Law and presentation of the new Law on the Federal Center for Labor Conciliation and Registration, introducing a pretrial conciliation process for labor disputes.	Reform approved	0	2019	1	Publication of the Federal Labor Law reform in the Federal Official Gazette (DOF)	STPS
2.3 Reform of the Federal Labor Law to establish gender parity in the composition of union boards of directors as a requirement.	Reform approved	0	2019	1	Publication of the Federal Labor Law reform in the Federal Official Gazette (DOF)	STPS
Component 3. Regulatory framework and use of technology to improve the resolution of individual labor disputes						
3.1 Reform of the Federal Labor Law to introduce democratic processes evidencing the representation of labor unions and approval and registration of CBAs.	Reform approved	0	2019	1	Publication of the Federal Labor Law reform in the Federal Official Gazette (DOF)	STPS
Component 4. Regulatory framework to improve the functioning of social security						
4.1 Reform of the Federal Labor Law, including provisions that disregard the legal effect of stipulations that prevent or limit the enjoyment and exercise of labor rights, including social security and lower wages.	Reform approved	0	2019	1	Publication of the reform of the Federal Labor Law in the Official in the Federal Official Gazette (DOF).	STPS
4.2 Reform of the Federal Labor Law regulating household work.	Reform approved	0	2019	1	Publication of the reform of the Federal Labor Law in the Official in the Federal Official Gazette (DOF).	STPS
4.3 Agreement defining the mechanism to reduce the fees of the retirement fund managers (AFOREs) to internationally competitive levels in the 2020-2024 period.	Agreement	0	2019	1	Agreement published in the Federal Official Gazette (DOF)	SHCP