

EMPLOYMENT PLAN 2014

MEXICO



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1. Employment and labour market outlook

Mexico has vast human resources and opportunities for its development. In the next 20 years, about 50% of its population will be of working age. Likewise, capital investments are comparable to those observed in economies with strong economic growth in recent years (24% of GDP).

In the last decades, economic growth in Mexico has allowed the rise of living standards of Mexicans. However, it has not been enough to reduce poverty levels in a significant manner. During the last decade, Mexico's average annual GDP growth was 1.9%, affecting the creation of quality jobs. Between 1960 and 2011, Mexican income per capita grew at 1.8% annual rate, a figure lower than other countries with comparable level of development.

Therefore, low economic growth, insufficient quality jobs, poverty and low quality standards of living provoke a vicious circle which is necessary to tackle in a quick and appropriate manner. In this regard, the Mexican Government is working in an ambitious and huge structural reforms package, in order to attend these challenges in the long term.

STATISTICAL OVERVIEW

In the fourth quarter of 2013, the economically active population in Mexico was 52.6 million; 44.3% of the Mexican population. From this total, 50.2 million were employed (95% of the workforce) but 29.1 million worked in the informal sector. The unemployment rate reached 5%, which means that 2.6 million people were unemployed. On the other hand, 16.3 million workers were registered at the Mexican Institute of Social Security (IMSS). In the past 15 years, the IMSS registered an annual average growth of 364,000 formal jobs.

Table 1: Economic and labour market conditions, 2008 (LHS) and 2013 (RHS)

	Real GDP growth		GDP per capita (USD terms)		Employment growth		Employment to population ratio	
Economy	1.4	1.1	14,742	17,331	-0.2	2.9	96.1	95.1
G20 median	1.4	1.9	\$25,339	\$26,243	1.1	0.9	57.7	57.1
	Unemployment rate		Incidence of long-term unemployment		Youth unemployment rate		Youth unemployment to population ratio	
Economy	3.9	4.9	N.D.	N.D.	6.6	8.3	57.3	53.6
G20 median	6.3	6.1	24.1	31.0	n/a	n/a	6.9	7.8
	Participation rate		Female participation rate		Working age (15 to 64 years) participation rate		Collective bargaining coverage	
Economy	58.6	59.1	41.3	43	62.2	64.1	18.6	16.2
G20 median	60.2	60.3	50.0	51.8	70.4	71.2	n/a	28.8
	Informal employment rate		Minimum wage (Per cent of average wage)		Gini coefficient		School completion rate	
Economy	58.4	59	22.1	22.4	0.467	0.453	N.D.	N.D.
G20 median	n/a	42.2	34.9	34.9	0.341	0.376	76.5	78.9
	Literacy rate		Year 12 attainment (among age 25 to 64 years)					
Economy	91.5	93.1	24.8	29.6				
G20 median	n/a	n/a	69.8	74.2				

It is true that the weak international economic growth observed in the last five years impacted considerably the Mexican economy. However, there is an urgent need to find the appropriate tools to increase productivity, competitiveness and promote a strong, sustainable and balanced, growth. Undoubtedly, these actions would enhance the promotion of decent work, quality jobs creation as well as improving the standard living conditions.



2. Employment challenges for Mexico

In Mexico, almost 60% of workers are informal. Therefore, they do not have social security, health care, pensions or housing benefits. Informal employment affects mostly young people entering to the labour market. In the fourth quarter of 2013, 85% of the labour force among 14 to 19 years had an informal job.

Informality also implies working without efficiency, training, innovation and competitiveness.

Small economic units (up to 15 workers) concentrate 88% of total informal employment. There are many factors affecting this phenomenon. In many cases, these units prefer the informal economy because they have incentives to continue operating outside the legal frameworks.

Therefore, one of the main challenges for Mexico is to create incentives for the transition from informal economy to formal economy. It is noteworthy that this process will allow tackle other challenges in the Mexican labour market, such as:

- ✓ Increase productivity and competitiveness of the workforce.
- ✓ Facilitate the entry of young people into the labour market.
- ✓ Increase labour participation of women and vulnerable groups.

CHALLENGE: PROMOTING THE TRANSITION FROM INFORMAL ECONOMY TO FORMAL ECONOMY

Informal employment rate in Mexico reaches 58.8%, well above the average for Latin America countries (48%). Therefore, it is imperative to promote job creation in the formal sector. For this purpose, the government of Mexico has established in the National Development Plan, as well as in the Labour Sector and Social Welfare Program, the commitment to encourage the creation of quality jobs.

Considering this, the Secretary of Labour and Social Welfare (STPS) has launched a broad campaign for promoting the formalization of jobs and to contribute the regulation of those economic units that are currently in the informal sector. The STPS has also contributed to encourage employer's better compliance with their obligations regarding the registration of workers at the IMSS. In addition, as per request of the workers, the Federal Labour Attorney advises them on labour rights in cases where workers have not been registered at the IMSS.

The STPS and the Ministry of Economy have established actions aimed to encourage productivity among micro and small enterprises. These actions include training programs, advisory and funding schemes, in order for them to adopt which could result in more efficient ways of production. The purpose is to boost investment in small economic units that result in job creation within the formal sector.

The Fiscal and Social Security Reform proposed during 2013, contains a proposal to strengthen the social security provisions by implementing an Unemployment Insurance Program.

- With the Reform, Unemployment Insurance benefits are recognized at a Constitutional Level by the introduction of a new right to ensure that all workers with formal affiliation to social security in Mexico will have access to unemployment benefits that will protect their income in the event of a job loss.
- This program promotes labor market efficiency, by creating the adequate conditions for a successful reintegration of the worker to the labor force. Benefits allow for an appropriate job search that matches worker's abilities and aspirations in case of unemployment.
- It also encourages the creation of formal jobs by maintaining the current costs of social security for employers.



The unemployment insurance has a positive impact on productivity. In the absence of household income, workers might accept less productive jobs than otherwise if they had an income that would have allowed them to keep searching for an opportunity that better matches their abilities and qualifications.

Unemployment insurance will allow people who lose a formal job to get a temporary income up to six months, in order for them to have the opportunity to look for a new formal job. The Social Security Reform that contains the Unemployment Insurance has already been approved by the Lower Chamber and is currently discussed being reviewed by the Senate (Upper Chamber).

In addition, in April 2014, the Mexican government announced the Social Security Incorporation Regime, which entered into force on 1 July, and will provide a subsidy for the social security contributions. Under this mechanism, the Federal Government supports the payment of the worker-employer contributions to the Mexican Social Security Institute (IMSS) and to the National Housing Fund (Infonavit) for all those individuals and their registered employees which have been subscribed to the Fiscal Incorporation Regime, which provides incentives to informal firms to start reporting revenues, and thus transforming into formality, by offering a subsidy to social security contributions and providing social security services for their employers.

CHALLENGE: FACILITATING LABOUR MARKET ACCESS FOR YOUTH

By the end of 2013, 2.4 million Mexicans were unemployed. 53% were less than 30 years old. The unemployment rate among youth was 7.7%. This figure shows that young people face greater difficulties to access to the labour market than adults.

For young people is more difficult to get a job due to their lack of experience. This situation is related with the low level of relationship between universities and businesses. Currently, only 14% of Mexican firms have some sort of connection with universities for recruitment and promotion of job opportunities among students.

Therefore, the Mexican Government is working towards a better school to work transition, as one of the key strategies of the National Development Plan. In this regard, the STPS has launched a website to facilitate information on the labour market. The Employment Observatory (OLA) provides useful information and tools regarding employment indicators for different professions, including number of women employed, average income, economic sector as well as geographical location for each job type. <http://www.observatoriolaboral.gob.mx>

In addition, this website provides information regarding education and training programs, in order to guide young people on the skills required by the labour market.

For the Mexican Government, it is very important to create the appropriate environment to facilitate school to work transition, in order to maximize the opportunities for creating employment according to the needs of skills and knowledge.

Consequently, the Mexican Government has designed a strategic agenda taking into consideration a broad dialogue between authorities, employers, workers and relevant stakeholders, considering the following elements:

- To identify the labour market needs and requirements for facilitating coordination between government, business and education sector.
- To overcome job training fragmentation through the integration of a coherent and complementary educational offerings between institutions, taking into account the new labour market requirements.
- To promote active employment policies, particularly for young people, including effective systems of vocational guidance and entailment with employers.
- To boost the performance of support and advisory mechanisms, such as labour observatories. These schemes could help to identify future occupations as well as to provide young people with the appropriate and timely information.
- To promote the adequate training of technicians and professionals.

- To encourage firms to invest in research and development.
- To monitor the legal framework in order to ensure the full respect to fundamental rights.

CHALLENGE: INCREASING THE LABOUR PARTICIPATION OF WOMEN AND VULNERABLE GROUPS

Mexico's demographic dynamic in recent years represents an opportunity, considering that the proportion of working age population will reach its peak in the next ten years. At the same time, this population growth will be a great challenge to ensure the labour market integration of young students, as well as for women, people with disabilities and older persons.

Nowadays, the unemployment rate of these groups is higher than for the rest of the population. In addition, the participation rate of this population in the informal sector is very high. For women, the labour force participation rate is 43%, a figure below the participation rate for men which is 77%.

For women, the labour informal rate is close to 60%. For elderly people (60 and over), the informality rate reaches 75%, the most vulnerable group.

The challenge in the following years will be to provide them the opportunity to find a decent job with full respect of their labour rights. To address this challenge, the Mexican Government carried out a Labour Law Reform in 2012, which establishes the basic elements to dignify employment.

Creation of decent work was established as a priority element of the institutional efforts, in order to ensure respect for workers dignity, to avoid discrimination, to improve access to social security regardless; to promote ongoing training as well to enhance occupational safety and health to prevent risks in the workplace.

The Reform also addresses some of the main country's employment gaps. With regard to flexibility, the reform allows firms to offer training schemes, trial contracts and temporary contracts for specific activities.

The Labour Law Reform also supports women through the explicit prohibition of any kind of discrimination. Moreover, the new Reform protects vulnerable groups, especially women and disabled people, while reinforces health and civil protection measures.

CHALLENGE: INCREASING PRODUCTIVITY AND COMPETITIVENESS OF LABOUR FORCE

From 1990 to 2012, the average annual growth rate of the productivity in Mexico showed a negative performance (-0.4%). This situation provoked an increase of the poverty levels, drop in real wages as well as higher rates of informality.

Considering this scenario, boosting productivity is a strategic issue. Therefore, the 2012 amendments to the Labour Law include some measures oriented to enhance labour force productivity.

In this regard, in 2013 was established the National Productivity Committee with the aim to serve as an advisory body to the President. The main purpose of the Committee is to contribute in the definition of objectives, goals, strategies, actions and priorities for boosting productivity, particularly in some strategic sectors of the economy.

The Committee is integrated by representatives from business, unions, academics, as well as federal and local governments. Under this National Committee, there has been created 31 State Commissions, for each one of the Federative States. These locals committees are working to identify the most favorable regional opportunities and strategies for improving productivity levels.



3. Current policy settings and new commitments

To address the challenges described, the Mexican Government has established a comprehensive structural reform agenda with the aim to promote the creation of quality jobs and tackle the informality.

Through the strategies set in the National Development Plan, the Mexican Government has established mechanisms for encouraging an inclusive participation in the labour market, such as:

- Promotion the transition from informality to formality, through a National Program implemented in joint collaboration with Federal States.
- Improvement of systems and procedures to protect workers' rights by strengthening and expanding labour inspection services. These inspections are aimed to watch over employment conditions (wages as well as occupational safety and health).
- Promotion of productivity with shared benefits, employability and job training. This strategy seeks to strengthen active labour training and self-employment in the formal economy.
- To foster the participation of workers' organizations and employers in occupational safety and health in the workplace, protection of individual and collective labour rights, and the promotion of collective bargaining.
- Sharing productivity and generating higher-paying job positions through social security policies that reduce the costs faced by firms to hire formal workers and promote sustainable income generation, emphasizing the participation of women in the formal labour market in communities with high levels of marginalization.
- Promotion of decent works through the respect of human and labour rights and social security, as well as contribute to the eradication of child labour.

TRANSITION FROM INFORMALITY TO FORMALITY

Through the "Program to Formalize Employment 2013", the 32 States of Mexico, the IMSS, the Tax Administration Service and the STPS, coordinated actions to reduce informality, integrating Working Groups for employment formalization in each State.

Labour market regulation

The labour reform approved in 2012 provides incentives to create more jobs, as well as to protect workers through the establishment and recognition of several forms of employment with flexible schedules. The Government of Mexico, through the Federal Labour Inspection, has implemented several measures to address the problem of the informal sector. From September to December 2013, there have been 43,237 inspections, detecting 4,562 workers unaffiliated to the Social Security (IMSS). In consequence, employers have been required to comply with the obligation of register employers at the IMSS.

Social protection

On June 17, 2013, the International Labour Organization (ILO) signed with the STPS a Framework Cooperation Agreement for the Promotion and Development of Measures to Establish a Social Protection Floor. Similarly, the main trade unions, such as the Confederation of Workers of Mexico (CTM), the Revolutionary Confederation of Workers and Farmworkers (CROC) and the National Union of Workers (UNT), have signed complementary agreements with the STPS on this regard.



Active Labour market programs

The Secretariat of Labour and Social Welfare, through the General Coordination of the National Employment Service, operates a Linkage Labour Service and an Employment Support Program, as part of the efforts to promote decent work. The most significant components of the Linkage Employment Services are:

- Employment portal: tool to support people through the website: www.empleo.gob.mx, which provides information on career guidance, training and legal advice, as well as statistical information related to the labour market.
- Job Fairs: events where job seekers could find employment opportunities through a direct link with firms. The purpose is to provide with an appropriate mechanism for employers to fill vacancies as well as job seekers to find an appropriate job.

These services are free for job seekers and are aim to provide the appropriate guidance. At the same time, they are oriented to support enterprises in the selection and recruitment process.

Other tool implemented by the STPS is the Employment Support Program, which aims to promote the placement of job seekers through financial support for training courses, in order for them to find a job. There are a variety of subprograms, such as support for self-employment, labour mobility and attention to migrant returnees, according to the characteristics of the population, their needs and the specific profile of unemployed people.

FACILITATING LABOUR MARKET ACCESS FOR YOUTH

The Mexican Government, through the STPS, manages "Becate", an active employment policy which supports people from the age of 16. In the whole country, unemployed or underemployed workers can access to this program, in order to be part of job training courses.

"Becate" is a kind of apprenticeship program, which offers courses for people to acquire or enhance their knowledge and skills in order to facilitate their labor market access. "Becate" has four assistance schemes:

- Mixed Training:
Agreements with firms for expanding their operations or establishing new installations, facilities or production lines or services, which require to recruit and hire workers. Specific training courses are designed for each purpose. The course is offered in the workplace, making easier for participants to strengthen their knowledge and skills. At least, 80% of the people that finishes a course are hired by the company where they were trained.
- Practice in the Workplace
It is aimed to guide unemployed youth between 16 and 29 years old, as well as recent graduates, from technical or professional levels to acquire work experience. They receive training in the workplace in order to facilitate their integration to the labour market.
- Self-Employment
It is targeted to unemployed or underemployed people who are interested in developing themselves as entrepreneurs.
- Financing support
Unemployed people can access this scheme. The support is provided through coupons in order for them to get into a training course for upgrading or adjust their professional skills and increase opportunities to access labour market.

All of these schemes provide an economic award (from one to three minimum wages) during the training period, which lasts from one to three months. Payment is awarded on a monthly basis for each day of attendance to the training. In addition, the beneficiary receives support for transportation and materials, as well as an accident

insurance. During 2013, "Bécate" benefited 307,659 job seekers. From this total, 241,739 got a job, which is a placement rate of 78.6%.

PROMOTE THE PARTICIPATION OF WOMEN AND VULNERABLE GROUPS IN THE LABOUR MARKET

The Labour Law Reform approved in 2012 regulates the hourly wage for young mothers with small children and young students, in order for them to access to the labour market.

From December 2012 to February 2014, federal labour authorities have done 153,678 inspections in 108,558 workplaces. Working conditions for women, youth and people with disabilities were verified, benefiting 7.2 million workers. The number of inspections exceeded the total of such activities in the period 2006-2010.

Other strategy, "*Abriendo Espacios*", promotes the creation and operation of specialized job boards, as well as the installation of assessment centers in order to identify the appropriate skills required by people with disabilities and elderly people seeking employment and establishing paths of collaboration between public and private organizations.

During 2013, this strategy relied on placement 36,159 older persons. In the same year, 12,945 with disabilities were placed in a job.

On February 20, 2014, a specialized website was launched for people with disabilities and older adults with job vacancies: <http://abriendoespacios.gob.mx>. It is important to note that international best practices were considered for the design of this website.

During 2013, 4.9 million job seekers were advised by the National Employment Service, which six out of 10 were aged between 16 and 30 years old. Women represented 43% of the population attended, and 30.1% of them were placed in a job. In addition, job fairs were held for these groups: 35 fairs for people with disabilities and older adults; 26 for youth and 10 for women.

Regarding public recognition of inclusive enterprises, the "Gilberto Rincón Gallardo" Award recognizes those workplaces which hire people with disabilities and vulnerable groups by promoting equality and non-discrimination. From 2010 to 2012, 221 inclusive workplaces were awarded. These workplaces hired 4,489 people in vulnerable situation: 3,084 women and 1,405 men.

Another mechanism oriented to promote labour market inclusion for vulnerable people is a federal network which coordinates the efforts of several public, private and social organizations. From 2010 to 2012, 33,594 vulnerable people were attended; 16,010 were women and 17,584 men. At the end of the period, 9,391 people were placed in a job.



4. Monitoring of commitments

SAINT PETERSBURG ACTION PLAN

Structural reforms

Labour market reforms to boost employment and growth (France, Mexico).

These reforms will have a positive impact on the productive capacity of the economy by increasing productivity, investment and competitiveness. At the same time, this will help to stimulate job creation and eliminate barriers in order to reach Mexico's growth potential.

In early 1990, Mexico sought fully integrated into the world economy in terms of trade and financial flows. This is when the North American Free Trade Agreement (NAFTA) was signed and when it launched other structural reforms.

This strategy produced significant results, but it was clear that other sectors need to be transformed in order to fully reap the benefits of an integrated and modern economy. In particular, the non-commercial sector and key input markets delayed the adequate opening, competition and regulation of the economy.

The labour reform was the first reform approved which establishes among other relevant changes new forms of contracts tested, with training, and through recognition of teleworking as well as home working, using communication technologies. These options aim to facilitate labour market access for women and students will have more opportunities to work, raising the participation rates of these groups through flexible labour schedules.

This reform also incorporates the component of equality and respect for human rights by establishing the explicit prohibition and punishment to sexual harassment in the workplace, or non-pregnancy certificates requested as a requirement for hiring or pregnancy as cause for dismissal. It also allows the reduction of the working day in one hour daily for working mothers with children and lactating, and it also allows that women workers with newborns can transfer up to four of the six weeks of maternity leave to which entitled before delivery for the postpartum period.

As one of the central themes, the reform provides the possibility for employers and employees to agree on ways to measure productivity and distribute its benefits equitably among workers, which will help to increase productivity in the workplace and workers' incomes. Additionally, the incorporation of the pay per hour legally established, through which workers and employers may agree the pay for each hour delivery service, provides flexibility in wage determination according to efficiency in the labour market.

The Federal government, through the STPS, will generate mechanisms of progressive recovery in the purchasing power of workers, in order to contribute to the convergence between income and cost of living. In addition, other measures will be designed in order to link wages to productivity, as well as to facilitate the access to credit for all workers.

Additionally to these changes, the following structural reforms are being implemented by the Mexican Government:

- Education Reform will raise the quality of human capital formation.
- Telecommunications Reform promotes competition in the sector and adoption of new technologies.
- The Reform of Economic Competition strengthens the competitive environment, fosters innovation and reduces input costs. Financial Reform seeks to promote greater competition in the financial sector and provide credit to entrepreneurs and owners of small and medium enterprises.
- Tax Reform is a step towards a simple and more progressive tax system that promotes equality and efficiency, and increases formal economy while strengthening government revenues. It is noteworthy that as part of the Tax Reform, the federal Law of Budget and Fiscal Responsibility was strengthened. To this end, an upper limit for the growth of current expenditure was established to improve the quality of public spending and generate savings when a positive output gap is experienced.



- The Energy Reform will allow providing energy at more competitive prices to firms and industries. This Reform opens investment in the Mexican energy sector to private companies, but maintains state ownership of oil.

These structural reforms will increase the growth potential of Mexico and could provide an example that others may follow. In total, it is estimated that the reforms will increase economic growth by 5.3% in 2018.

LOS CABOS JOBS AND GROWTH ACTION PLAN

Promote investments in infrastructure to increase productivity and living standards in the medium term and to address bottlenecks (Argentina, Australia, Brazil, India, Indonesia, Mexico, Saudi Arabia, South Africa, United Kingdom)

Mexican Government's strategy to boost economic growth and unleash Mexico's potential relies on increase productivity in a sustained way and reducing the productivity gap among people and across regions, that is, to allow for opportunities and development to reach all regions and population groups, promoting job creation and incentivizing among all the actors of the economic activity, the efficient use of productive resources.

Productivity can be increased through different channels, which are not mutually exclusive and can be mutually reinforcing. On the one hand, aggregate productivity increases if firms' efficiency rises. This occurs, for example, when innovation and technological development translates into an increased ability of companies to increase production with the same amount of inputs. On the other hand, the productivity of the economy increases if the factors of production are employed in more efficient companies or activities.

To boost productivity, Mexico has established the following:

- The publication of a National Program to Democratize Productivity which is focused on both increasing overall productivity and decreasing the productivity gap between the different sectors and regions in Mexico.
- The program is focused on five different courses of action:
 - Efficient allocation of factors of production – This includes, among others, decreasing informality, increasing access to credit and promoting an efficient use of natural resources.
 - Increasing the productivity of labour and capital – Some of the actions undertaken aim to increase the human capital of the work force, strengthen the job training, promote innovation in the private sector, and increase funding for public research.
 - Promote a hospitable business environment – Maintain macroeconomic stability, more efficient regulation, strengthen the rule of law, reducing the cost of inputs used by most companies (i.e. energy, telecommunications), and investment in infrastructure.
 - Develop public policies aimed at increasing productivity in specific regions and sectors – Foster balanced regional growth and facilitate ordered structural change from low productivity activities to high productivity activities.
 - Strengthen the institutional framework to ensure public policies are designed keeping a productivity focus – The establishment of the National Productivity Commission, establishment of 32 State Productivity Commissions; evaluate existing government programs in terms of its effect on productivity.
- Providing the appropriate incentives to employers to integrate their employees in the formal economy.
- On May 17, 2013 the National Productivity Committee was created with the objective to suggest strategies, policies and actions for promoting productivity and employment, and establish coordination mechanisms among the public, social and private sectors for the design, implementation and evaluation of actions for increased productivity.



- Implement a state policy to strengthen scientific and technological knowledge in order to move towards a knowledge society to attend social demands and needs, trigger higher levels of innovation and increase business productivity.

Another key element for the promotion of economic growth is investment, including infrastructure. In this sense, in the period January-June 2013, 66,239 million pesos were invested in this area.

From December 2012 to July 2013, 15,766 billion of pesos were invested in highways, airports, water and transportation projects, which aim to increase the competitiveness and productivity of various regions of Mexico.

Promoting green and sustainable growth (Australia, Korea, Germany, Mexico)

In the National Development Plan 2013-2018 is set as priority of the Government of Mexico the promotion of reforms and public policies consistent with 11 objectives, among which are: to promote the creation of quality jobs and boost and guide an inclusive and facilitate green growth that preserves the natural assets while generating wealth, competitiveness and jobs. In this context, one of the main objectives to be achieved in the period 2013-2018 is to make environmental protection a source of tangible benefits. The economic incentives for firms and society should help to reach a balance between the conservation of biodiversity, sustainable use of natural resources and the development of productive activities.

Mexico recognizes that sustainable economic growth is a viable and necessary solution for developing countries to fight poverty and social inequality, while inhibiting the degradation of natural capital. The National Climate Change Strategy (ENCC for its initials in Spanish) is the backbone which will indicate actions to generate green growth as a long-term planning mechanism to move towards a resilient country. It has two main purposes: an increase in GDP in a sustainable way and decreasing the emission of carbon greenhouse gases.

Regarding green growth and jobs, the Mexican government has established the goal for creating one million jobs by 2018, according to the Sectorial Program of Environment and Natural Resources.

